

**FINANCIAL SERVICES AND GENERAL GOV-
ERNMENT APPROPRIATIONS FOR FISCAL
YEAR 2017**

TUESDAY, MARCH 8, 2016

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:03 a.m., in room SD-138, Dirksen Senate Office Building, Hon. John Boozman (chairman) presiding.
Present: Senators Boozman, Moran, Lankford, Mikulski, Coons, and Durbin.

DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

STATEMENT OF HON. JACOB J. LEW, SECRETARY

OPENING STATEMENT OF SENATOR JOHN BOOZMAN

Senator BOOZMAN. Good morning. The subcommittee will come to order. Today marks the first hearing of the Financial Services and General Government Subcommittee to consider the President's 2017 budget. This is my second budget season as chairman of the subcommittee, and I am pleased to serve along side my ranking member and good friend, Senator Coons.

I would also like to acknowledge the other members of our subcommittee, Senator Moran, Senator Lankford, and Senator Durbin. Although the membership of our subcommittee is small, we have oversight of a broad range of agencies which have a significant impact on our economy and our Government.

As we begin this important hearing, we welcome our witnesses with us today, Treasury Secretary Jack Lew, Commissioner John Koskinen, and the Treasury IG for Tax Administration, Russell George. Thank you all for being here.

We look forward to hearing from you about the details of our budget request, as well as recent actions taken by the administration, including the lifting of sanctions against Iran. We are also interested to learn more about your plans to combat internal threats and your efforts to address cyber vulnerabilities in our Nation's financial sector.

As members of this subcommittee, we have a tremendous responsibility to ensure the hard-earned tax dollars from millions of Americans are spent appropriately.

That is why it is so disappointing to see the President's final budget proposal. This budget does nothing to address Washington's spending problem. The budget for 2017 would create \$3.4 trillion in new taxes, increase spending by \$2.5 trillion, and add \$6.1 trillion to the debt over the next 10 years.

While hard working Arkansans have been forced to cut their spending significantly in the past few years, the President remains unwilling to do so in Washington.

Most troubling is the significant new mandatory funding streams for programs that typically would receive discretionary dollars controlled by Congress. The use of mandatory spending to skirt spending limits will diminish fiscal discipline and congressional oversight.

As members of this subcommittee, we have an obligation to ensure that decisions about Federal funding are made with taxpayers in mind. Nowhere is the need for oversight more apparent than the agencies before us today.

When the IRS engages in behavior that breaches the trust of the American people, it undermines taxpayers' faith in the impartiality of the agency. When the IRS hires employees with past performance or conduct issues, it does not build confidence in the agency's ability to safeguard taxpayers' rights, transparency, and privacy.

When the IRS makes employee bonuses a priority, it does not restore the trust of taxpayers that it will enforce laws impartially, without regard to an individual's exercise of their constitutional rights.

Once again, the IRS does not seem to have its priorities in order. According to the Taxpayer Advocate, the IRS's ultimate goal is, and I quote, "To get out of the business of talking with taxpayers," and to quote again, "And the widespread expectation is that traditional taxpayer services—telephone assistance and face-to-face assistance—will be scaled back dramatically."

While some evolution in service delivery can be expected, it is the IRS' ability to manage that change without adversely impacting taxpayers that is most worrisome.

This is of particular concern given the recent revelation that in the rush to expand online services, the IRS made fundamental mistakes in assessing risks which resulted in over 700,000 taxpayers being exposed to the potential of identity theft and refund fraud, many more than were first reported.

The American people want a government that works for them, not against them. They want us to curb Washington's wasteful spending habits, make the Government more efficient, effective, and accountable, and pursue policies that create economic opportunities for everyone.

These priorities will be reflected in the critical oversight we conduct as we consider the fiscal year 2017 budget request for all of the agencies within our jurisdiction.

Thank you.

I now turn to my ranking member, Senator Coons, for his opening statement.

STATEMENT OF SENATOR CHRISTOPHER A. COONS

Senator COONS. Thank you, Chairman Boozman, for convening this hearing. I enjoy working together on the diverse array of issues that come before the subcommittee, and I am grateful for the opportunity to again work with you closely.

I hope we can explore matters of mutual interest and find areas of common ground as we strengthen our partnership and leadership roles on this subcommittee.

I would like to welcome today's witnesses, Secretary Lew, Commissioner Koskinen, and Inspector General George. I commend you for your service and leadership under what are often challenging circumstances.

Today, we consider the budget request for the Treasury Department, an agency central to our Government's stability, our country's fiscal health, and our national security. You have a vital and wide ranging job, from collecting taxes and prosecuting financial crimes here in the United States, to identifying and cracking down on individuals, businesses, and governments that finance and promote terror abroad.

From my standpoint, the members of this subcommittee have both the opportunity and an obligation to provide you the resources you need to do your jobs effectively.

I appreciate today's opportunity to have a frank discussion about where the department is today, where it needs to be, and how we can work together to help Treasury fulfill its broad responsibilities.

At a time of constrained budgets, I am also eager to hear from our witnesses how Treasury has adapted. I know a gap has remained in recent years between what the department has requested and funding it has actually received, making it challenging to meet mission demands. If that persists, a question I have is what will be the impact on Treasury's ability to carry out its important missions, and how will the Treasury prioritize scarce resources amidst competing demands.

It is important we gain a deeper understanding for how funding and management decisions will affect Treasury's operations, not just next year but in the years to come.

Most of the department's discretionary funding, of course, goes to the IRS, but the department also includes other bureaus and offices with a wide array of responsibilities, from forecasting economic indicators and managing Government spending, to combating money laundering and fighting financial crimes.

I am pleased the President has requested increased funding for development programs, including the Community Development Financial Institutions (CDFI) Fund and the States Small Business Credit Initiative. Programs like these provide access to capital for small business and individuals around the country to help rebuild some of our most distressed communities.

I was pleased also to see this year's budget does not propose a reduction for the Office of Terrorism and Financial Intelligence, which has the critical responsibility of enforcing economic sanctions against nations such as Iran, North Korea, and other regimes that support terror and instability around the world, and I will be inter-

ested to hear whether the requested level of funding is sufficient for this office's crucial mission.

No Government agency is more visible to the American people than the Internal Revenue Service. The IRS collects the revenues that fund more than 95 percent of our Federal Government's operations, public services, programs, and each year the more than 80,000 public servants at the IRS make hundreds of millions of contacts with American taxpayers and businesses.

The President's fiscal year 2017 budget for the IRS proposes roughly \$11.8 billion in base discretionary funding, an increase of \$530 million or 5 percent above the fiscal year 2016 enacted level.

I look forward to hearing from Commissioner Koskinen about his priorities for these requested funds as well as how the IRS is directing funds that were made available for fiscal year 2016.

My office frequently hears from Delawareans frustrated when their calls to the IRS go unanswered or when it takes a very long time to connect with an official of the IRS. I would imagine many other Senate offices similarly hear from constituents with concerns.

Nationally, last year, less than half of the callers to the IRS actually reached someone on the other end before giving up, and those who did get through often had to wait an average of more than half an hour.

Doing your taxes is already time consuming and challenging enough. Getting a tax filing question answered should not be more difficult than actually filing taxes in the first place.

Mr. Koskinen, I look forward to hearing how the fiscal year 2016 funding increases have allowed the IRS to improve its performance in the current filing season, and what your plans are moving forward. We certainly have a long way to go to return to the responsiveness levels of a decade ago when callers to the IRS could generally get through in less than 3 minutes. I am anxious to hear how we can do more to optimize service delivery rates.

Mr. Chairman, we have much more to discuss today and important ground to cover. The fiscal year 2017 funding forecast retains budgetary constraints, so it will be helpful to hear our witnesses' perspectives on what resources are essential to deliver top notch service to taxpayers and enforce our tax laws with integrity and fairness. I know Delawareans expect no less.

I welcome the opportunity to work with you again, Chairman Boozman, and to an open exchange of ideas as our fiscal year 2017 process moves forward. Thank you.

Senator BOOZMAN. Thank you, Senator Coons. I appreciate Senators Durbin and Moran being here today.

In order to make it through all three panelists today, I asked the other Senators to incorporate their statements into their questions or submit them for the record.

Secretary Lew, again, thank you for being here. I now invite you to present your remarks on behalf of the Department of the Treasury.

SUMMARY STATEMENT OF HON. JACOB J. LEW

Secretary LEW. Thank you, Chairman Boozman, and Ranking Member Coons, members of the subcommittee. I appreciate the op-

portunity to be here today to discuss Treasury's fiscal year 2017 budget request.

Since my testimony last year, our economy has continued its record breaking streak of private sector job creation, which has reached 6 consecutive years and 14.3 million jobs. Over the last 2 years, we have experienced the strongest job creation since the 1990s.

At 4.9 percent, the unemployment rate is half of its 2009 peak, and we continue on a sound fiscal path. From fiscal year 2009 to 2015, the deficit as a share of GDP fell by almost three-quarters to 2.5 percent.

The passage of the omnibus spending bill in December has helped to build on this momentum, contributing to our economic growth and helping to rebuild our international leadership. That agreement demonstrates that we have the capacity to find common ground on difficult issues, and it lays the foundation for addressing some of our long-term challenges.

But more work remains, which is why this year's budget includes critical investments in our domestic and national security priorities. Treasury's 2017 budget makes investments in cybersecurity infrastructure and financial intelligence activities, including efforts directed at the Islamic State of Iraq and the Levant (ISIL).

It also includes strategic investments in the IRS so that the agency can return to providing the level of customer service and privacy protections that Americans expect and deserve.

It supports investments in America's small businesses and distressed communities to help grow the economy and ensure that all Americans benefit from growth.

Finally, the 2017 Treasury budget makes a number of investments to support the ability of both our domestic and international offices to further Treasury's mission.

Cybersecurity is an urgent challenge facing the country and the Treasury Department. Treasury's budget request proposes a new \$110 million department-wide cybersecurity investment account to enhance IT management across our bureaus, and improve our ability to protect against and respond to cyber threats.

The proposed investments will enhance electronic authentication procedures for access to Treasury digital services, expand existing security systems on internal networks and public Web sites, and safeguard data across the department.

The fiscal year 2017 Treasury budget also includes strategic investments in the IRS to improve service to tens of millions of taxpayers, to reduce the deficit through a more effective tax administration, and provide the privacy protections that Americans expect and deserve.

I appreciate the increase provided by Congress in fiscal year 2016, but as many of you are aware, the IRS remains severely underfunded. Despite its crucial role and growing responsibilities, the IRS budget is nearly \$1 billion lower than it was in fiscal year 2010, while the volume of income tax return filings has increased by nearly 7 percent.

Budget reductions of the IRS costs the country billions of dollars each year in lost revenue contributing to inadequate customer serv-

ice for taxpayers and leaves necessary cybersecurity protections unfunded.

A sustained deterioration in taxpayer services combined with diminished enforcement capacity could create serious long-term risks for the U.S. tax system.

Our request provides a \$530 million increase above the fiscal year 2016 enacted levels. With these investments, the IRS will increase staffing for traditional taxpayer services, improve the quality of assistance available to taxpayers who call the IRS, and bolster defenses against stolen identity refund fraud.

In fiscal year 2015, full-year telephone level of service plunged to just 38 percent. With the additional funding received in fiscal year 2016, we expect to reach 47 percent this year, and with full funding in fiscal year 2017, we could bring that level back to 70 percent.

The budget also invests in new IT architecture that will enable the IRS to continue to modernize and secure its online services and provide taxpayers with an experience comparable to what they have come to expect from financial institutions.

Treasury's request also proposes an additional \$515 million increase through a program integrity cap adjustment to increase enforcement of current tax laws, investigate transnational organized crime, root out abusive tax schemes, and enforce the Foreign Account Tax Compliance Act, FATCA.

These targeted investments are expected to return roughly \$6 to the Government for every \$1 invested, and reduce the deficit by \$46 billion over a 10 year budget window.

The fiscal year 2017 Treasury budget outlines key investments in evidence-based programs that will support America's small businesses, working families, and distressed communities.

I would like to focus on one in particular. While I appreciate the committee's inclusion of technical assistance for Puerto Rico in last year's funding bill, more needs to be done. Puerto Rico's economy continues to suffer. Its unemployment remains above 12 percent. Its debt is unsustainable, and outmigration continues to accelerate.

The administration has proposed a comprehensive plan to address Puerto Rico's financial challenges, and we encourage Congress to act with the haste that this crisis requires with legislation that will allow a financial restructuring along with new oversight, neither of which cost any taxpayer dollars.

The budget also proposes a \$600 million annual allotment indexed to inflation to create a refundable locally administered earned income tax credit for residents of Puerto Rico. Unlike Americans living in the 50 States and the District of Columbia, residents of Puerto Rico are not eligible for the Earned Income Tax Credit (EITC), which would increase employment in Puerto Rico's formal economy, as well as improve the commonwealth's tax compliance and tax revenue.

Finally, the fiscal year 2017 Treasury budget makes a number of investments to support the ability of both our domestic and international offices to further Treasury's missions. While not under this subcommittee's particular jurisdiction, I want to highlight Treasury's international program's budget request. It provides a cost effective way to promote international financial stability and continue U.S. leadership in international development, advance na-

tional security, and expand export markets for American businesses.

In closing, I want to take the opportunity to thank the talented team of public servants at the Treasury Department. I am proud to represent them here today, and on behalf of these hard working men and women, I want to say how much we appreciate the continued support of this subcommittee.

Thank you very much, and I look forward to your questions.
[The statement follows:]

PREPARED STATEMENT OF HON. JACOB J. LEW

Chairman Boozman, Ranking Member Coons, members of the subcommittee, thank you for inviting me to speak about Treasury's budget request for fiscal year 2017.

I want to begin by acknowledging the bipartisan passage of the omnibus spending bill in December, which is already contributing to our economic growth and rebuilding our leadership internationally. This agreement demonstrates that we have the capacity to find common ground on difficult issues and lays a foundation for addressing some of our long-term challenges. Over the past 7 years under the President's leadership, we have seen a sustained economic recovery and an unprecedented decline in the Federal budget deficit. But more work remains to make sure we are upholding the basic American belief that everyone who works hard gets a fair shot at success. In recognition of this, the fiscal year 2017 President's budget puts forward the building blocks of a social compact for the 21st century and creates the conditions for sustained economic growth. The budget also makes critical investments in our domestic and national security priorities while adhering to the bipartisan budget agreement signed into law last fall, and it lifts sequestration in future years so that we continue to invest in our future.

Within these constraints, the fiscal year 2017 Treasury budget supports key administration priorities to (i) further our national security interests, (ii) to invest in Treasury's cybersecurity infrastructure and financial intelligence activities—including efforts directed at ISIL—and (iii) to make strategic investments in the IRS to provide the level of customer service and privacy protections that Americans expect and deserve. And it supports investments in America's small businesses and distressed communities to help grow the economy and ensure that all Americans benefit from growth. Finally, the fiscal year 2017 Treasury budget makes a number of investments to support the ability of both our domestic and international offices to further Treasury's mission.

INVESTING IN CYBERSECURITY

Cybersecurity is one of the most urgent challenges facing the Treasury Department and the country. Treasury's budget request proposes a new \$110 million department-wide cybersecurity enhancement account to focus Treasury's cybersecurity efforts, improve IT management across our bureaus, and increase our ability to protect against and respond to cyber threats. The proposed investments will enhance electronic authentication procedures for access to Treasury digital services, expand existing security systems on internal networks and public Web sites, and safeguard data across the department.

INVESTING IN NATIONAL SECURITY AND PROTECTING THE FINANCIAL SYSTEM

Treasury's financial intelligence, sanctions policy, and enforcement activities support U.S. national security interests and help protect the financial system from illicit use. Treasury's request provides \$117 million for the Office of Terrorism and Financial Intelligence (TFI) to oversee and marshal Treasury's intelligence, enforcement, and economic sanctions functions. The request reflects Treasury's continued efforts to combat rogue nations, terrorist facilitators, money laundering, drug trafficking, and other threats to our security. These efforts include disrupting ISIL's finances, enforcing sanctions against Iran and North Korea, and enhancing global financial transparency.

The request also includes \$115 million for the Financial Crimes Enforcement Network (FinCEN) to support Treasury's efforts to safeguard the financial system from illicit use, combat money laundering, and support national security interests through the collection, analysis, and dissemination of financial intelligence and the strategic use of FinCEN's authorities.

INVESTING IN THE IRS AND A FAIRER TAX SYSTEM

Treasury's request includes strategic investments in the IRS that will improve service to tens of millions of taxpayers and reduce the deficit through more effective tax administration. I appreciate the increase provided by Congress in fiscal year 2016; however, the IRS remains severely underfunded.

The IRS collects more than 90 percent of Federal revenue and interacts with millions of Americans every day. Despite its crucial role and growing responsibilities, the IRS budget is nearly one billion dollars lower than it was in fiscal year 2010, while the volume of income tax return filings has increased by nearly 7 percent. Budget reductions at the IRS cost the country billions of dollars each year in lost revenue, contribute to inadequate customer service for taxpayers, and leave cybersecurity protections necessary to protect taxpayer data underfunded. A sustained deterioration in taxpayer services combined with diminished enforcement capacity could create serious long-term risk for the U.S. tax system.

Our request provides a \$530 million increase above the fiscal year 2016 enacted level to protect the integrity of the tax system, fairly enforce the tax code, and provide adequate levels of taxpayer services. With these investments, the IRS will increase staffing for traditional taxpayer services, improve the quality of assistance available to taxpayers who call the IRS, and bolster defenses against stolen identity refund fraud. In fiscal year 2015, full-year telephone level of service plunged to just 38 percent. With the additional funding received in fiscal year 2016, we expect to reach 47 percent this year and with full funding in fiscal year 2017, we could bring that level back to 70 percent. The budget also invests in new IT architecture that will enable the IRS to continue to modernize and secure its online services and provide taxpayers with an experience comparable to what they have come to expect from financial institutions.

Treasury's request also proposes an additional \$515 million increase in fiscal year 2017 through a program integrity cap adjustment to support efforts aimed at increasing enforcement of current tax laws, investigating transnational organized crime, rooting out abusive tax schemes, and enforcing the Foreign Account Tax Compliance Act (FATCA). Targeted investments to fully fund enforcement initiatives through the cap adjustment are expected to return roughly six dollars to the Government for every dollar invested and reduce the deficit by \$46 billion over the 10-year budget window.

INVESTING IN ECONOMIC GROWTH AND OPPORTUNITY

The President's budget lays out a vision for what we need to do as a country to grow the economy and ensure that all Americans share in the benefits of economic growth. Treasury's request outlines key investments in evidence-based programs that will support America's small businesses, working families, and distressed communities. These investments will help drive economic growth, create jobs, and provide access to essential financial services.

Treasury's request includes \$246 million for the Community Development Financial Institutions (CDFI) Fund to promote economic development investments in America's low-income and underserved communities. Included in this request is \$10 million for a new Small Dollar Loan Program, which will support broader access to safe and affordable financial products and encourage community institutions to provide alternatives to predatory lenders. The request also proposes to extend the CDFI Bond Guarantee program to facilitate the provision of long-term capital to financial institutions operating in underserved communities, at no cost to taxpayers.

The budget also includes a series of mandatory proposals to facilitate private investment in our Nation's infrastructure, investments in small business job creation, and partnerships with private industry and local governments to promote stable income and sustainable savings practices for working families.

Investing in Infrastructure

The budget establishes a new Financing America's Infrastructure Renewal (FAIR) program within Treasury that would provide direct loans to U.S. infrastructure projects developed through public-private partnerships. Eligible projects under the program will encompass the transportation, water, energy, and broadband sectors, as well as certain social infrastructure, such as educational facilities, and must meet all applicable environmental and labor standards. The program is estimated to provide \$15 billion in direct loans over 10 years at no cost to taxpayers.

Supporting Small Businesses

The budget includes a new authorization of \$1.5 billion for the State Small Business Credit Initiative (SSBCI) to build on the momentum of the program by

strengthening the Federal Government's relationships with State economic development agencies and providing capital to America's diverse community of entrepreneurs. Since enacted in 2010, SSBCI has supported over 12,400 private-sector loans or investments in small businesses and helped create or retain over 140,000 jobs.

Encouraging Projects that Pay for Success

The budget includes a \$300 million one-time mandatory appropriation for a new Pay for Success (PFS) Incentive Fund administered by Treasury. This program will support the growing number of State and local governments seeking to establish projects that use PFS financing. These projects leverage private investment to provide preventive social services that measurably improve outcomes for families and communities while generating value to the government, including savings. The PFS Incentive Fund will help to strengthen the ability of State and local governments to achieve measurable impact for people and communities.

Financial Innovation for Working Families Fund

The budget includes a \$100 million mandatory fund for Treasury to encourage the development of innovative private-sector financial products and services that would help low- to moderate-income workers build up "rainy day" reserves. The reserves would provide these workers and their families with a buffer against shocks to income and spending needs.

Allotment for Puerto Rico EITC Payments

I appreciate the committee's inclusion of technical assistance authority for Puerto Rico in last year's funding bill; however, more needs to be done. While the economic health of our Nation has improved dramatically since President Obama took office, Puerto Rico's economy continues to suffer. Their unemployment remains above 12 percent. Outmigration continues to accelerate. And the Commonwealth's debt is unsustainable. As a result, the administration proposed a comprehensive plan to address Puerto Rico's financial challenges, and we encourage Congress to act with the haste this crisis requires. This must begin with legislation to permit a financial restructuring along with new oversight, neither of which cost any taxpayer dollars.

The budget proposes a \$600 million annual allotment, indexed to inflation, to create a refundable, locally-administered Earned Income Tax Credit (EITC) for residents of Puerto Rico. Unlike Americans living in the 50 States and the District of Columbia, residents of Puerto Rico are not eligible for an EITC. Given Puerto Rico's low labor force participation rate, the existence of an EITC should increase employment in Puerto Rico's formal sector by providing higher incomes to workers who file taxes. This added incentive for participation in Puerto Rico's formal economy should also increase Puerto Rico's tax compliance and tax revenues.

OTHER INVESTMENTS IN SUPPORT OF TREASURY'S MISSION

The request includes new investments in Departmental Offices to support Treasury's economic and financial policy, and general management. These targeted investments will allow Treasury to improve risk management, enhance Treasury's analysis of complex tax and economic data sets, and effectively implement the Digital Accountability and Transparency Act (DATA Act).

Finally, while not under this subcommittee's jurisdiction, I also want to highlight Treasury's International Programs Budget Request. The request provides a cost-effective way to continue U.S. leadership in international development, advance national security, and expand export markets for American businesses. The request promotes international financial stability and supports key global initiatives such as economic development, poverty reduction, improved food security, and climate change mitigation and adaptation.

CONCLUSION

In closing, I want to thank the talented team of public servants at the Treasury Department. They are dedicated to the work of the department and committed to the American people. I am proud to represent them here today, and on behalf of these hard-working men and women, I want to say how much we appreciate the support of this subcommittee.

Thank you, and I look forward to answering any questions that you have.

Senator BOOZMAN. Thank you, Mr. Secretary. At this time, we will proceed to our questioning, where each Senator will have 7 minutes per round. If there is sufficient interest from our members

for additional rounds of questions, we will try to accommodate them.

Secretary Lew, at this hearing last year, members of both sides of the aisle brought up the need for reforms to onerous laws and regulations that burden our community banks and limit their ability to serve small businesses. Unfortunately, little progress has been made in reducing compliance costs and regulatory burdens.

Small businesses and community banks remain swamped under paperwork and regulations, and zero new banks have been chartered in Arkansas during the entire Obama administration. Additionally, many community banks are being forced to consolidate due to ever increasing compliance costs. Community banks did not cause the financial crisis, yet they have been affected during the implementation of Dodd-Frank.

Can you talk a little bit about what the administration is trying to do to provide flexibility and ease the burdens and compliance costs facing the community banks?

Secretary LEW. Mr. Chairman, I think we agree that community banks, small financial institutions, play a crucial part in the financial system of our country and in forming a backbone for small businesses and for our communities.

The laws that we have give our regulators flexibility to have different standards, so it is not an one-size-fits-all approach. They have endeavored in many areas to address the concerns of small financial institutions with lighter reporting requirements and different supervision schedules and standards.

I think the reality is that there are a very broad range of financial institutions in the country today, and we probably do not have a single definition of what a small institution is. When we think of the small institutions, we are not thinking of regional banks and we are not thinking of banks that are hundreds of billions of dollars.

The burdens on the smaller institutions should reflect the risks they present. I know the meetings that we have at the Treasury Department, the conversations that I have with the regulators, they are constantly looking at what tools do they have to be responsive to that concern.

Senator BOOZMAN. I agree in the sense that as you stated, it should be addressed based on risk. Certainly, the smaller banks need to be regulated. I guess the next question is how do you make sure the same regulations that apply to the mega banks are not being forced down on community banks, and along with that, the reality is there are simply no new banks being chartered post Dodd-Frank. Banks are getting bigger rather than smaller. I think in that regard, putting us more at risk.

Secretary LEW. The truth is the burdens on the larger banks are different than the burdens on smaller banks. The nature of the stress tests, the question of which institutions have to file living wills, the degree of oversight they get.

I do not think we want to be in a world where we go too far in removing the supervisory function. It is not that many years ago that we had a financial crisis that did not come from big banks, it came from small banks. We know this pendulum can go in both directions.

Senator BOOZMAN. Why are there not being new banks chartered?

Secretary LEW. You know, I think coming out of the financial crisis—we have seen what was happening before the financial crisis—which is a trend towards consolidation. I think it has to do with economies of scale as much as anything else. It is not something that was created by the financial crisis. We were seeing that trend over some time.

I do not have any specific evidence on why we are not seeing new banks chartered, but I would be happy to go back and look and see what the kind of experience was at different periods of time, whether we were seeing a lot of new banks chartered in the 10 years prior to the financial crisis, for example. I am happy to look at that and get back to you.

Senator BOOZMAN. Thank you. The administration has taken a number of steps to foster stronger economic ties with Cuba, yet a major barrier that my constituents in Arkansas face is the ban on private credit for agricultural transactions in the Cuban marketplace.

Cuba imports about 80 percent of its food, making it an attractive export market for farmers, and estimates indicate that for Arkansas alone, we could add nearly \$80 million annually to the economy by exporting to Cuba.

Last year, I offered an amendment to the Senate Financial Services bill that was adopted by voice vote based on a bill that I and Senator Heitkamp introduced. The legislation would lift the ban on American's ability to provide financing for sales of agricultural commodities to Cuba, no longer requiring cash payment in advance of shipment, and breaking down a huge barrier to trade. This solution seems like an obvious next step to building a more positive relationship with our neighbor.

Can you describe some of Treasury's recent efforts related to Cuba? Are there any forthcoming plans to further enhance economic ties?

Secretary LEW. Mr. Chairman, we have gone quite far within laws that constrain our ability to go all the way to normal trade relations. There is an embargo in place. We have laws that prevent us from having normal trade relations.

Respecting those laws, we have been going as far as we can to try and open up commerce and connections between the American people and the Cuban people, because frankly, 50 years of an embargo have not worked. If we want to change Cuba, we need to have more contact with Cuba. We need the Cuban people to have more contact with ideas and people from the United States.

In the areas of export financing, we have gone as far as we can to ease up on the financing requirements that have hurt our agricultural exporters, but frankly, until there is a change in law, we have limitations as to how far we can go.

We have been very careful. We have tried to be as aggressive as we can be within the law, but not to go beyond. We are continuing to look at what options we have. We would be open to suggestions of areas where if anyone thinks we have not gone far enough, we would be happy to take another look.

Senator BOOZMAN. We appreciate that. You do support loosening the rules up, as far as congressional change, to increase the financing?

Secretary LEW. Yes. I mean it would take an amendment to current law to do that. We would be happy to work with you on that. We have made clear that the broader issue of the embargo is something that Congress would have to address for us to truly have any full normalization of relations.

Senator BOOZMAN. Thank you, Mr. Secretary. Senator Coons.

Senator COONS. Thank you, Chairman Boozman. I am confident that we share an enthusiasm for the same agricultural exporters, and I think all the states represented by the members here have that in common. I also will follow up with you about Cuba financing.

Let me ask you first about the Community Development Financial Institutions (CDFIs), if I might, and the role they play helping small businesses and communities to expand and grow. How would this budget help expand CDFIs into new neighborhoods, and particularly into rural areas where they are not currently located or as effective as they could be? What other incentives or reforms do you think are needed to encourage banks and other entities to partner with CDFIs?

I would also be interested, Mr. Secretary, if you would talk about the small dollar lending program. I have seen firsthand how destructive payday lending can be, and I would be interested in how you think we might help CDFIs enter the small dollar market, and I am interested in several other proposals you have for financial innovation for working families. Let's focus first on CDFIs.

Secretary LEW. Thanks, Senator Coons. We think CDFI is an exceptionally important program in building financial institutions in our smaller communities and in our rural communities to help provide access to capital, which is necessary for businesses to have a chance to get started and to thrive.

There are a number of things in the President's budget. First, we start with an increase in funding, so more money into the program is obviously helpful. Secondly, we fully fund the bank enterprise award program, which is a way to provide grants to FDIC-insured depository institutions that demonstrate they have increased their investments in CDFIs.

You mentioned the small dollar loan program. Our budget requests \$10 million for the new small dollar loan program, which would be a very important way for us to make progress on having a real alternative to payday lending. Payday lending is not a good thing for either the individuals who have no choice but to go to them or for the financial systems. We think that is very important.

One of the things we did last year that greatly expanded the reach of CDFIs is we worked with the credit unions, made credit unions eligible for CDFI. That greatly expands the number of institutions that are CDFI eligible.

As I travel to cities and rural areas, I visit CDFI-funded institutions. One of the things that I am always struck by is that what we fund is only part of what they do. They become anchors in their community and they became hubs that can provide access to multiple forms of assistance, and bring together a lot of the things that

we do in the Federal Government, in the community where people need access to it.

Senator COONS. Thank you. Let me focus for a moment on sanctions. As you know, we recently voted to strengthen sanctions against North Korea. We continue to have serious concerns about vigorous enforcement of sanctions against Iran that remain in place, and continued efforts to disrupt terrorist financing that supports the Islamic State of Iraq and the Levant (ISIL).

Is the budget request sufficient for this small office to effectively fulfill its critical mission, and do you think it makes a difference that Adam Szubin has not yet been confirmed, despite bipartisan support for his record of service across two administrations, to actually lead this office?

Secretary LEW. Senator, I think our Office of Terrorism and Financial Intelligence (TFI), is seen throughout the Federal Government as fighting way above its weight in terms of adding value to the effort to control illicit financial activities and to track down and stop the flow of funds to terrorist organizations.

I could not be more proud of the people, the men and women who work in that office. They work at night, they work on the weekends. I think we have requested the right amount of money. I do not think there is any way we are going to make these easy jobs because these are jobs that are investigative jobs like any other. The people who do this work are committed to it.

No one complains about working long hours. We have the people we need. We have requested funding. Obviously, more funding always eases the workload burdens. I do not think this is a case where there is a shortage of funds. It is hard work. It just takes grinding effort going through intelligence, going through leads, figuring out where a case can be made, and then taking action.

With regard to Acting Under Secretary Szubin, I think he should be confirmed. It is one of the most important counterterrorism positions in our Government. He is eminently qualified. I do not know anyone who has raised a question about his qualifications. He represents us around the world in some of the most difficult environments, and the Senate should confirm him and confirm him quickly.

Senator COONS. Thank you. Mr. Secretary, as I have raised with you directly and through a letter I recently sent, Mahan Air continues to be a key means by which Iran is providing support to Hezbollah, the murderous regime of Bashar al-Assad, which helps fuel the Syrian refugee crisis. Yet, Mahan Air lands in airports all over Western Europe. They have previously been subject to sanctions.

What are the main obstacles to implementing new sanctions against Mahan Air, given their ongoing role in facilitating terrorist activity by Iran?

Secretary LEW. Well, Senator, we are committed to enforcing sanctions against Mahan Air as part of our broader efforts to push back against Iran's efforts, both in terms of its support for terrorism, and its activities in the region that are destabilizing the region.

We have focused in particular on Mahan Air's support for the Iranian Revolutionary Guard Corps (IRGC) Qods Force, including

the transfer of personnel and movement of arms and fighters from Iran to Syria, Iraq, and Yemen. We have continued to take action against Mahan through engagement, financial blockings, designations, interdicting shipments, and by pressing our partners to act against Mahan Air.

We are actively working with our international partners to try to limit where Mahan can fly. We are continuing to look for actions that should and could be taken against Mahan, and have never relented in that.

Senator COONS. I would welcome hearing from you in more detail. That is encouraging. I think you would find bipartisan support for limiting Mahan's ability to access our allies' airspace, because this is the means by which the forces are projecting into the region in a terrible and destabilizing way, and I think we can and should take more aggressive action against them.

I have more questions, but I can see—

Secretary LEW. If I might, Senator, just to take it to a broader level of principle, as I made clear before a number of committees of Congress over the summer, we are taking the ongoing enforcement of sanctions on terrorism, regional destabilization, and human rights violations very seriously.

We have taken action in recent weeks. We will continue to take action as it is warranted. We lifted the nuclear sanctions because that was the deal. Iran stopped its nuclear program. We lifted the nuclear sanctions. We have never lifted the other sanctions nor is there any understanding other than that we will continue to press forward.

Senator COONS. Thank you. Thank you for your testimony, Mr. Secretary.

Senator BOOZMAN. Senator Moran.

Senator MORAN. Mr. Chairman, thank you very much. Secretary Lew, thank you for your presence and testimony today.

The Treasury Department holds the proceeds of 50 million matured unredeemed U.S. savings bonds worth about \$17 billion. Many of those bonds have been fully matured for a long period of time, decades. Is there any effort at the Treasury Department to find the owners of those bonds and/or to assist States like my own who have unclaimed property laws to make certain the owners or the heirs of those owners can access the funds that they loaned to the Federal Government?

Secretary LEW. Senator, I will have to admit that I am going to have to check on that and get back to you. I do not get a regular report of unclaimed bonds, but I will check on it and get back to you with an answer.

Senator MORAN. Mr. Secretary, I think you will find that the Treasury Department is not very engaged in this effort. You can confirm or deny that once you have the information.

There are 17 States that have laws in place in which they are trying to return those bonds or the proceeds of those bonds to the rightful owners or the heirs of the rightful owners with little or no help from the Treasury Department. The Treasury Department indicates it has no ability to connect the owners to the bonds in a transparent way, to notify those bond holders.

Secretary LEW. I am not sure whether these are paper bonds or electronic bonds and what form they are held in. I will get the facts and get back to you. Obviously, we have no interest other than being helpful. Whether there is a system that provides for that to be accommodated is what I need to check, and I am happy to do so.

Senator MORAN. Thank you very much. I will have a few follow up questions in writing in that regard.

Let me turn to the topic that Senator Boozman raised with you in regard to community financial institutions. I was less than enamored with your response to Senator Boozman.

It seems last year when we had this conversation, you were more vigorous in your support for community financial institutions and more concerned about their overregulation. I hope that is just a reflection of the words you happened to choose today and not a reflection of your attitude or approach.

When the Banking Committee, of which I am a member, passed legislation, the so-called “deregulation,” that became the Shelby bill, it came out of our committee on a partisan vote. Every Republican voted yes, every Democrat voted no.

I took that as an opportunity not to call this the end of the day, but to try to organize colleagues, Democrats and Republicans on the committee, to come together and find something perhaps in the middle, some place in this discussion in which we could address some of the, in my view, overregulation of regional and community banks and financial institutions.

One of the things I would ask you is—it seems to me that part of our challenge in getting that accomplished was the Treasury Department, and you in particular, in a letter to the House Financial Services Committee, indicated opposition to the effort for the kind of changes that were being at least considered.

My only request, and you certainly have the right to oppose changes to Dodd-Frank that you think would be inappropriate, but if you could be more discrete, more narrow in your opposition, and rather than being opposed to the process or trying to shut down the conversation or passage of legislation that you oppose in its current form, that you could help us by supporting provisions that are reducing whose goal the provisions of which reduced the burden upon community financial institutions, and deliver that message instead of the message that this is a bad idea in totality.

Secretary LEW. Senator, my views have not changed since last year. I continue to believe there should be differential treatment of banks of different size.

The reason we objected to the legislation that you are describing is we thought it did do severe damage to Dodd-Frank, and I do not think it drew a line between small and large banks in a way that is the right way to distinguish.

For example, the current limit is at \$50 billion. It took it up to \$500 billion. Those are enormous institutions. They are amongst the very largest financial institutions in our country. It was not even in the neighborhood of a reasonable proposal in terms of what you might change the size to. Some people talked about going from \$50 billion to \$100 billion. The proposal went to \$500 billion.

I think one of the reasons we respond the way we do to big packages like that that contain very damaging rollbacks of Dodd-Frank is we have seen now for 5 years efforts to repeal Dodd-Frank, to chip away at Dodd-Frank, so perhaps we are conditioned by the experience of the last 5 years. If it had been a proposal that did not have such damaging provisions, we would have responded in a different way.

Senator MORAN. My only request, and I understand how you can get to the point of view that every effort is to totally repeal Dodd-Frank—my request would be work with us, particularly as we try to get a bipartisan solution to community financial institutions by providing things that you do believe are worthwhile of our support and something that the administration would agree to.

Secretary LEW. I think last year when I testified, I probably used the same example. The schedule for supervisory review could be changed for smaller institutions. That would ease their burden. That would be the kind of thing we would be open to talking about.

The problem is it was a rather large and all inclusive package that Senator Shelby moved through committee, and we were responding to that. I always remain available to have conversations about things that are in the realm of real improvements.

Senator MORAN. Knowing the circumstances which the Shelby bill faced, there were those of us, Republicans and Democrats, trying to find some other parameters by which we could accomplish this. We need your help, not opposition, to find that place in which we can come together.

Secretary LEW. If I may, Senator, just on that issue, one of the things that comes up frequently when we have conversations like this is attempts to roll back the Financial Stability Oversight Council. One of the things we have been very negative about is anything that would chip away from that.

Before the financial crisis, we had no entity in this Government that was responsible for looking across all agencies to ask the question where is financial stability risk coming from.

I would just say in my last year it is something that I am going to be zealously on guard against, because right now, we are sitting in a place where the U.S. financial system is safer and sounder than it was by a long shot, and I think we have to leave it that way.

Senator MORAN. Let me remind you of something you agreed to do in our conversation in this hearing last year. Agrippa, you are familiar with the process, I assume, from OMB.

Secretary LEW. Yes.

Senator MORAN. I would just encourage you to encourage the regulators—

Secretary LEW. I have done so.

Senator MORAN. To take that process seriously. This may be the place for the inability of Congress to find a legislative solution. There is a process in place by which many regulations that may be overly burdensome, unnecessary, or too broad can be addressed by regulators, those people, I assume—

Secretary LEW. I totally agree.

Senator MORAN. Have the greatest ability to find the right balance.

Secretary LEW. When I was OMB Director, I wished I could do a regulatory look back for all agencies because independent agencies do not come under OMB review in the same way. They are governed by a separate process. That is what the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) process is.

I know that the regulators have been taking it very seriously, and I think that is the right place to look to see where some things can be rolled back.

Senator MORAN. Thank you, Mr. Secretary.

Senator BOOZMAN. Our ranking member on Appropriations, Senator Mikulski.

Senator MIKULSKI. Thank you very much, Mr. Chairman, and to your ranking member, Senator Coons. This is an excellent hearing. You have organized a trifecta with the Secretary of Treasury, the head of IRS, and then a wrap up hitter with the Inspector General.

I think we often overlook the importance of the Department of Treasury in terms of keeping America safe, the safety and soundness of our financial institutions, to protecting us against terrorism and the illicit funding of human traffickers and drug cartels.

I wanted to come to this hearing not only to ask some important questions of the Secretary and IRS, but also, Mr. Lew, this is our last public appearance together. I wanted to be here particularly to thank you for your service. We go back to the Clinton days, way back when you were the Director of OMB.

I have found over the years, whether you were in Government and out of Government, what a straight shooter you have always been in dealing with Congress and trying to solve the problems that were in your portfolio. You have been a straight shooter.

You have been a money guy with an eye on the people. You have always tried to encourage public investments for dividends, whether it was physical infrastructure or human infrastructure. We have been really lucky to have someone with your expertise, and that also goes to what you said earlier about the people at the Department of Treasury.

This field is financial services. Anyone who goes into this field, lucrative opportunities are available in the private sector. They are here because of mission and they are here because of purpose.

I am going to thank you and I am also going to thank them for what they do every single day. I feel we thank them with both adequacy of resources and certainty of resources.

Secretary LEW. Senator, you beat me to the punch. I, last night, said this is probably the last hearing that I will appear before Senator Mikulski, and I was proud to call you my Senator for 10 years, and I have been proud to call you my friend for longer than that. I could not have asked for a higher honor than to work with somebody like you for all these decades.

Senator MIKULSKI. Well, the feeling is mutual. While we are doing some Kumbaya, we will get to some questions. We are very much concerned about the whole issue of safety and soundness of financial institutions, the exploitation of terrorism, human trafficking, all the ways that money travels.

I am interested in the security of the Treasury Department itself, and the whole potential of cyber attacks on various aspects of the

Department of Treasury. We saw what happened to OPM. We know the Pentagon gets a million hacks a day, and so on.

Could you tell us what is the Department's initiative to protect the department against this? I will now talk with IRS. You know, it is everything from identity threat. I just got these kinds of calls where I am now a target for IRS fraud, and I will talk more about it with the director.

Could you tell us about what you have in mind for this \$110 million? Is it adequate? Does it do the job? Can we feel secure that you will use the money well?

Secretary LEW. Senator, cyber threats are something that every agency of government, every business in the country deal with on a daily basis. It is a new reality, and it is a terrible reality because it is something that puts at risk our systems and our personal financial security and our personal privacy.

At Treasury, we have multiple levels at which we are concerned about it, starting with the systems themselves. Obviously, that is something where we have the same problem, we detect attacks that come in. We need to continually put in the software and the monitoring necessary to catch things before they get into our system.

Because we are a consumer/taxpayer facing agency, as you will talk with the IRS about, we get attacked in ways that are beyond just our system. There is enough information out there on the Web that people can impersonate a taxpayer and not hack into the system, but just come in under the guise that they are pretending to be you or me.

We have to be better at finding them. We have put systems in place to have those instances detected because of patterns, and one of the things that regretfully we have had to do is make it a little bit more cumbersome rather than easier to deal with some of the things that were supposed to simplify access.

For example, we wanted people to be able to get a transcript easily, Get Transcript, have it be something that if you are applying for a loan, you get your tax file instantaneously. It turned out that cyber criminals found identities of people and drew upon their tax records, so we now are going to have to put some filters in to make it a little bit slower. That is just the price—

Senator MIKULSKI. Mr. Secretary, I note that in the President's budget and your request, there are 12 new cybersecurity projects, and you are going to hire 28 cyber experts. Is this is what they are going to be dealing with?

Secretary LEW. Well, the cyber experts at the main Treasury will be dealing with our systems. At the IRS, they will be dealing with the taxpayer systems. You will come back to that with—

Senator MIKULSKI. To come back to your systems, there you are, head of Treasury, are they plums or pigeons to be plucked, are these 28 people going to be the cyber shield to protect you?

Secretary LEW. Well, I think we face the same challenges that every other employer faces, it is a very hot market for people with expertise in cybersecurity. In the private sector, salaries are way up. One of the things we have been pleased by is public service still calls good people in, and we have been able to hire the people with the skills we need.

I must say I worry about that going forward because we are going to need to train more and more cyber experts or else it will get challenging, and we might end up not having access to the talent we need.

So far, we have been able to hire the right people, but I do not take for granted that that will continue. I see what the bidding is in the private sector. We need to be able to have the flexible practices that permit us to bring in technical people when we find them and to pay them appropriately.

Senator MIKULSKI. Thank you. Mr. Chairman, I just encourage the subcommittee, this is an area where I think we are vulnerable, even in OPM, you oversee so many things. This is an area we ought to keep an eye on. Thank you very much.

Senator BOOZMAN. Thank you. Thank you for your questions. I agree with you totally, this is a huge area that I think is kind of the tip of the iceberg if we are not careful.

Secretary LEW. It will not go away. We are going to be dealing with it for years to come. We need to, I think, understand the cyber criminals will try to figure out where the weaknesses are, and we are always going to have to be fighting to get ahead of them.

Senator BOOZMAN. Right, very much. I would like to ask, as part of the appropriations bill, the subcommittee requested the Treasury Department, prior to the lifting of any sanctions designation relating to Iran to conduct a full review of sanctioned entities' behavior and report to the subcommittee in writing whether the entity continues to engage in any particular prohibited activities.

I guess the question is did we go back as the law requested and review all these entities? Of all the Iranian banks that were de-listed, were none engaged in facilitating non-nuclear illicit activities? The question is was not a single one of these banks facilitating a significant transaction for the Iranian Revolutionary Guard Corps (IRGC)?

Secretary LEW. Senator, we went back and reviewed every entity that was designated for nuclear purposes, and we removed the designations that were related to their violations of our nuclear sanctions.

If an entity was designated for a different purpose, say for support of terrorism, we did not lift the designation. Some entities were duly designated, and if you were designated for both nuclear and terrorism, it was not lifted. We lifted the sanctions that were nuclear sanctions, and that was primary sanctions and secondary sanctions.

Senator BOOZMAN. Are we continuing to conduct ongoing reviews to ensure the entities are not engaging in any of the prohibited activities?

Secretary LEW. We continue with the case of terrorism and regional destabilization and human rights sanctions to vigorously review activity and take action when appropriate.

I think if you look at the financial institutions, for example, those that were designated for terrorist violations remain sanctioned.

We also have a broader prohibition against doing business between the United States and Iran that is an obstacle for most direct business. That is just related to the legislation that was enacted decades ago.

Senator BOOZMAN. The Iran Sanctions Act (ISA) is the foundation of the sanctions regime architecture. As you know, unless we reauthorize it, the law will expire at the end of 2016. Under the joint plan of action, the administration waived certain ISA provisions, and you also pledged to snap back these sanctions should Iran violate the joint plan of action.

I believe it is crucial for Congress to reauthorize the ISA to ensure there is something to snap back to. Reauthorization would also send a strong signal to Iran that Congress is carefully scrutinizing its actions. Failure to reauthorize would send Iran exactly the opposite message. In other words, the U.S. will not push back against bad Iranian behavior.

Secretary Kerry stated last week that now is not the time to reauthorize ISA. I guess the question is when is the right time?

Secretary LEW. Well, Senator, my experience is that when the right time comes, this is an area where legislation can pass very quickly. I do not think there is any need to act now for something that does not expire until January.

I think on the question of snap back and actions we could take, we have ample tools right now both to snap back sanctions and to take action against Iranian entities that violate terrorism, regional destabilization, and human rights sanctions.

In the event there is a reversal of Iran's position on nuclear issues, we can snap back sanctions there with the authorities we have.

I do not think this is a case where we are lacking in the ability to perform as we have described, and I do not think there is a need right now for Congress to act on the Iran Sanctions Act.

Senator BOOZMAN. Thank you. Senator Coons.

Senator COONS. Mr. Chairman, I will defer to Senator Durbin.

Senator BOOZMAN. Senator Durbin.

Senator DURBIN. Thank you very much, Mr. Chairman. I want to thank my colleague, Senator Coons. Mr. Secretary, thank you for being here.

I read the statements by the Inspector General as well as the Commissioner. I would just say until we can devise a government which does not involve the collection of taxes, we owe it to taxpayers to treat them fairly and in a courteous way. What we have done to the Internal Revenue Service in terms of their taxpayer services by virtue of cutting back dramatically on appropriations is a sad commentary on Congress' relationship with the IRS.

I think we owe it to the American taxpayers who by and large are people doing their best to comply with the law and do everything they are required to do, to treat them with more courtesy, respect, and efficiency.

Secretary LEW. I could not agree with you more, Senator.

Senator DURBIN. When I look at these numbers from the Inspector General, that the IRS received approximately 8.3 million calls and provided 37.6 percent level of service with a 23.5 minute average speed of an answer—

Secretary LEW. It is terrible.

Senator DURBIN. There is no Senator or Congressman who could get reelected if they tried this in their home States or with their constituencies.

Secretary LEW. Yes, I find it unacceptable to preside over an agency that has no choice but to have such a bad performance record because it does not have people answering the phones. You go to the call centers and there are empty seats. That is why the phones do not get answered.

Senator DURBIN. Also, when it comes to compliance, if the word is not out and about there are cops on the beat, we know what is going to happen. People are going to continue to try to cheat this Government. The overwhelming majority of people are doing their legal best to pay their taxes, and we owe it to them to make sure everyone pays their legal share of taxes in this country.

I would like to address another issue, the issue of inversions. I think the estimate is some 76 companies have now inverted, which means paper shuffling to try to change their address and reduce their tax responsibility. We have had them in my State. We had—I will not name names. I just do not want to open up old wounds.

Major corporations announced they were going to pick up and move overseas to avoid their Federal tax responsibilities. You stepped in at the Treasury Department to try to devise ways to slow this down or stop it. How successful have you been?

Secretary LEW. Yes, Senator, we have taken action twice with administrative guidance that has helped, it has slowed down the process. As I said at the time, through administrative action, we cannot shut the door to inversions. It would take legislation to do that, and I think Congress should legislate to do that.

There are a lot of tax professionals out there, lawyers and advisors, who figure out ways around guidance, but you could have legislation that shuts the door. In our tax reform proposal, we do a lot of things that I think are important to make our tax code more competitive and to help stimulate investment in the United States, but you could pull out the inversion provisions and you could legislate an anti-inversion bill and stop these inversions.

Senator DURBIN. There is an estimate—

Secretary LEW. We are actually looking at an additional action, Senator, and it will help, but I do not want to mislead. It will help but it will not shut the door completely.

Senator DURBIN. We estimate we have lost \$30 to \$90 billion in Federal tax revenue from these companies that do this fast shuffle of corporate location so they can avoid tax liability. Some of them argue and I have heard the argument, well, that is because of our corporate tax rate, but when you take a look at the companies that are inverting, leaving to go overseas, very few if any are paying the full 35 percent tax rate.

Burger King and Medtronic paid an average Federal tax rate of 20.3 percent between 2011 and 2013. Overall, the largest companies pay a rate of just under 20 percent on average.

Even if you could argue for it, and I would join in the argument, for some sort of tax reform that would include corporate tax rates, that in and of itself is not the argument in the cases of these corporations.

Secretary LEW. Senator, I avoid commenting on any individual tax matters, but as a principle, there is no question that there are companies that have gotten a lot of benefit by being U.S. companies. They benefit from the research and development in the

United States, the infrastructure in the United States, the education system in the United States, the rule of law in the United States, and for them to change their legal address to lower their taxes and still take full advantage of everything the U.S. offers is just not right. It may be legal, but it is not right, and we should change the law.

Senator DURBIN. It is certainly not fair to those businesses and individuals who continue to pay taxes in this country to maintain our national defense, to maintain the infrastructure, which these same companies take advantage of every single day, and in the case of pharmaceutical companies, again, I will not name names for fear of the not so innocent being highlighted, these companies relied on the National Institutes of Health (NIH) and other agencies doing basic research at taxpayers' expense so they can create products that will make a profit for them. Now, they want to go overseas and avoid paying the taxes that sustained the medical research operations.

Secretary LEW. Senator, I think the right answer would be for us to do business tax reform properly, to get rid of the loopholes in the deductions, to lower the statutory rates so that we can compete in the world again, and to have an international tax system that makes our taxes and taxes overseas work better together.

Senator DURBIN. So, what should we do about the \$2 trillion in profits overseas that are being held to avoid paying U.S. taxes?

Secretary LEW. That is where our tax reform would subject U.S. taxable income to taxes, a minimum tax rate, even if it does not come home. It would be a lower tax rate than the domestic rate, but we put a 19 percent rate in our bill, and there have been proposals for different rates. We can solve this problem.

That is one of the things that would have generated revenue, one time revenue, where that overseas money is repatriated to pay for infrastructure and help rebuild our country.

We had a proposal, we have had a proposal for several years now, which I think actually has pretty broad bipartisan support. We just have not been able to get it through the Congress.

Senator DURBIN. I might add that I think you are suggesting and I would support saying those who want to repatriate overseas profits would be given some advantage in the Tax Code if in fact they reinvest it in America, in capital investment in our country, to create job opportunities, new business opportunities for Americans. That, to me, is the thoughtful way of trying to bring the profits home, allow the corporations to benefit somewhat, but more importantly, that American workers and businesses will benefit as well.

Thank you, Mr. Chairman.

Senator BOOZMAN. Thank you, Senator. Senator Coons.

Senator COONS. Thank you, Mr. Chairman. Just a few follow on quick questions, if I might. First, just on the question of sanctions enforcement, I just wanted to commend the administration for placing tough export restrictions on the Chinese telecom giant, ZTE, and continuing to enforce our laws.

I am troubled. Earlier today there were news reports just breaking in recent hours that the Iranians have launched a whole other range of ballistic missiles, and they will continue to test us. It is my hope we will be able to continue to work closely on ensuring

we are enforcing the many sanctions and export restrictions that remain on the books.

On cybersecurity, just to follow up on Senator Mikulski's question, FITARA, the Foreign IT Acquisition Reform Act, was enacted in 2014, and helps to empower agencies' CIOs to ensure they would have sufficient authority over IT spending across the department to eliminate silos and stovepipes of spending at the bureau level.

This broad initiative across the department to strengthen your cybersecurity resources, how does it build on the goals of FITARA, and how would these funds be merged with other IT funds within the department's base request to make sure that it really does meet your highest priorities and greatest risks the department faces?

Secretary LEW. Senator, the challenge dealing with cyber is there are some things you know you need to deal with as a planning matter in advance, and other issues come up over the course of the year. We need to be able to target funding where it is needed, when it is needed.

One of the things we have been working on in recent months is to make sure we take our classified system and have it meet the highest level of standards.

The challenges are in every part of the IT infrastructure, not just at the Treasury Department, but globally. The idea of having very narrowly defined funding targets does not give you the ability to be nimble enough to move as you see threats that need to be addressed. A lot of these solutions are not multi-year builds. It is seeing a problem, bringing in experts and fixing it.

We think the proposal that we put together gives us the flexibility to address the things we know are now on our agenda, but also to target resources as the year develops to challenges as they occur. We very much look forward to working with the subcommittee on coming to an understanding of how that can be done and the subcommittee seeing how we use the money.

We are not looking to have unbridled discretion here. It is really a question of targeting it to the right part of the fairly broad enterprise that Treasury comprises.

Senator COONS. There is a significant tax gap in the United States by some accounts, something like \$350 billion goes uncollected, mostly because of under-reporting of Federal tax liability. It is about a 16 percent gap, if I understand it correctly.

It also raised equity concerns because those who comply, those who voluntarily meet their legal duties, honest taxpayers, end up paying more, and one estimate is about \$3,400 per household per year, to subsidize dishonest taxpayers who underestimate.

What do you think we could do to shrink the tax gap, as Senator Durbin raised, when the message is sent out that the agency is underfunded, and the ability to collect effectively is significantly hindered as well? I would be interested in what you think both the agency and more broadly the Department and the IRS is going to be able to do to address the tax gap.

Secretary LEW. I would say two things, Senator. First, if we do not have the resources to hire the enforcement officers that we need, the tax gap will only grow, because we know when you put resources into enforcement, you find cases of tax avoidance, and we

know when you find cases of tax avoidance, voluntary compliance goes up because people do not want to get caught.

So, you have the direct benefit of finding taxes that should have been paid that were not, but you also make the system a healthier system and a more fair system, because everybody should know that people in a like position are paying taxes as they do, not skirting the law.

In terms of monitoring the tax gap, it is related to the whole IT challenge that we have. Frankly, the resources available for data collection, data analysis, do not reflect what we need to do all the work that we have. So, it is another area where resources actually make a difference.

Senator COONS. A bill that I supported, the Digital Accountability and Transparency Act, which was enacted 2 years ago, was designed to improve the quality and the transparency of Federal financial data, and I think would also improve the understanding of the average American of what it is the Federal Government does.

Is the USAspending Web site going to be ready to host the enhanced agency data, and what is the current status of Treasury's implementation of the Data Act?

Secretary LEW. We have been working to implement the Data Act. It is something our folks worked very closely with the subcommittee on when it was being developed. We have taken the lead with OMB on implementing it. We have taken the lead in terms of our own data to make sure it is ready to be in compliance.

I should have the schedule at my fingertips, but I will have to get back to you with the schedule.

Senator COONS. Last, you had a proposal for incentivizing the financial services sector to create wealth generating opportunities for low income working class families. If you could just talk about that proposal briefly, I would appreciate it.

Secretary LEW. Yes, Senator. We launched a program called myRA ("my retirement account"), which is a way for people who do not have employer provided retirement plans to open an account. What we found the obstacles to people starting to save were pretty straightforward. They wanted something simple. They wanted something safe, and they wanted something affordable.

If you cannot put away a minimum amount, you cannot open a private account in a lot of places. If you are not able to put more than a few dollars a pay period away, there are not a lot of private options out there.

A myRA account can be opened with as little as \$5. There is no minimum amount. You can do it by putting part of your tax refund in it. It is safe. It is invested in Treasury securities. It is essentially savings bonds. It is something that you can get access to if you have a crisis because it is on the model of a Roth IRA.

It is safe, it is simple, it is affordable, and all you have to do is go on myRA.gov to sign up. We just went nationwide with the ability to sign up at the end of the year, and we are trying to get the word out to people to take advantage of it.

Senator COONS. Thank you. Thank you for your testimony today, and thank you very much for your service.

Secretary LEW. Thanks, Senator.

Senator BOOZMAN. Senator Mikulski, do you have any follow up?

Senator MIKULSKI. No, thank you, Chairman Boozman.

Senator BOOZMAN. Thank you, Mr. Secretary, for being here. I know you are disappointed that you are excused now. We do appreciate you being here and appreciate your hard work.

Secretary LEW. Thank you, Chairman Boozman. It is always a pleasure to be here.

Senator BOOZMAN. Thank you. Commissioner. We also thank you, Mr. Commissioner, for being here. I would now invite you to present your remarks on behalf of the Internal Revenue Service.

INTERNAL REVENUE SERVICE

SUMMARY STATEMENT OF HON. JOHN A. KOSKINEN, COMMISSIONER

Mr. KOSKINEN. Thank you, Mr. Chairman, Ranking Member Coons, and members of the subcommittee.

Senator BOOZMAN. Can you do your microphone?

Mr. KOSKINEN. Chairman Boozman, Ranking Member Coons, and members of the subcommittee, thanks for the opportunity to discuss the IRS budget and current operations here this morning. I want to begin by thanking Congress, including the members of this subcommittee, for approving \$290 million in additional funding for the IRS for fiscal year 2016.

This is the first time in 6 years the IRS has received significant additional funding. It is a major step in the right direction, and I can assure the Congress that we will use these resources wisely and efficiently.

The IRS is still under significant financial constraints. Even with the additional \$290 million, our budget for 2016 is still about \$900 million below 2010. Our budget as a whole, for this year, is actually essentially flat compared to last year, when you consider that the Service must absorb about \$300 million in mandated cost increases and inflation this year.

Since 70 percent of our budget is for personnel, we have no choice but to continue the exception only hiring policy that began in fiscal year 2011. That leaves us unable to replace most employees we lose this year through attrition. In fact, we expect the IRS workforce to continue to shrink by another 2,000 to 3,000 full-time employees this year, for a total loss of more than 17,000 employees since 2010.

The President's fiscal year 2017 budget proposal for the IRS requests an increase of about \$1 billion, which would bring the Agency's funding back up to its level of 7 years ago. This increase would help the IRS across a wide range of tax enforcement and taxpayer service categories.

Even with this increase, the IRS would still, in real terms, be operating with fewer resources and a significantly larger workload than it had in 2010. While our budget was declining, inflation rose by 9 percent, the number of tax returns filed grew by more than 10 million, and the IRS was given numerous unfunded mandates to implement in the meantime.

We recognize the importance of spending taxpayer dollars wisely, and will continue working to find efficiencies in our operations, but a fact that often gets overlooked is that the U.S. is much more efficient in its tax collection than most other countries.

The average OECD member spends \$8.87 to collect \$1,000 of revenue while the U.S. spends only \$4.70. If you look at Germany, France, England, Canada, Australia, they all spend almost twice as much as we do to collect a dollar of revenue. I believe it is important to understand that we are already one of the most efficient tax administrations in the world.

In developing our funding request for 2017, we felt it was important to be as specific as possible in describing our priorities and the cost of each one. For that reason, the funding request describes 15 separate initiatives that together represent the bulk of the \$1 billion increase proposed in the President's budget.

We believe this will give Congress a good sense of how we intend to spend any increase in funding we might receive, and we are prepared to be held accountable for achieving the goals related to each initiative.

THE IRS'S FISCAL YEAR 2017 FUNDING REQUEST

Let me briefly highlight some of the major areas covered by these initiatives. First, taxpayer service. As discussed with the Secretary, the level of taxpayer service last year was totally unacceptable. The additional funding for 2017 will help us improve service delivered through traditional channels and allow us to continue modernizing the services we offer, to help transform the taxpayer experience.

Already, of the \$290 million provided for this fiscal year, we have devoted \$178 million to improving our level of service on the phones. This year we have already answered 3 million more calls than we answered at this time last year, primarily because of our ability to hire 1,000 additional employees.

Second, stolen identity refund fraud. The additional funding will allow us to keep investing in resources and tools to try to stay ahead of criminals who continue to become more sophisticated in stealing identities and filing false returns.

Third, our core enforcement programs. With this additional funding, we would, for example, be able to increase the number of audits and collections. This increase is critical because the ongoing decline in enforcement activities we have seen in the last several years has translated into billions of dollars of lost revenue for the Government.

I would note that at the end of fiscal year 2016, compared to 2010, we will be down 6,500 Revenue Agents, Revenue Officers, and Criminal Investigators, compared to 2010.

Fourth, the Affordable Care Act. We have no choice but to continue to invest in IT infrastructure to support the implementation of the Affordable Care Act's major tax related provisions. I would point out that for the past 4 years, the IRS has received almost no funding for implementation of the Affordable Care Act, and therefore, we have had to use over \$1 billion of resources needed for other critical IT functions in order to meet our statutory obligations under the Affordable Care Act.

Fifth, electronic records management. Although we have been making progress in preserving and protecting e-mails and other electronic records, we need to continue making improvements so we can respond faster to legal and congressional inquiries, along with Freedom of Information Act (FOIA) requests.

While providing adequate funding in these and other areas is critical, Congress can also help us by passing legislation to improve tax administration. In that regard, the President's 2017 budget request contains a number of legislative proposals that I would urge the Congress to approve.

We do appreciate that Congress already has responded to our request and next filing season, we will get W-2s in January, at the same time employees do, which will allow us to significantly attack identity theft.

The proposals for this year for which we request support include renewing streamlined critical pay authority, which is used primarily for information technology executives. It was passed as part of the Restructuring Act in 1998. It expired in 2013, and has not been renewed by the Congress.

Of the 14 remaining people on our streamlined critical pay roster who will disappear next year, 10 of them are senior IT executives. I was advised yesterday that one of our senior cybersecurity experts has been recruited away by the private sector. It does not cost the Government much, but our ability to hire up to 40 people, particularly in IT—we have never used the full 40; over this time, the maximum was 34—is critical to our effective IT functioning.

Also, we requested legislation to expand the matching program for taxpayer identification numbers; to grant us authority to require minimum qualifications for paid tax preparers, and; the ability to expand electronic filing requirements for business. At this point, we get over 85 percent of individuals who file electronically, but less than 50 percent of businesses file electronically.

This concludes my statement. I would be happy to answer your questions.

[The statement follows:]

PREPARED STATEMENT OF HON. JOHN A. KOSKINEN

INTRODUCTION

Chairman Boozman, Ranking Member Coons and members of the subcommittee, thank you for the opportunity to discuss the IRS's budget and current operations.

Let me begin by expressing my appreciation to Congress, including the members of this subcommittee, for approving \$290 million in additional funding for the IRS for fiscal year 2016, to improve service to taxpayers, strengthen cybersecurity and expand our ability to address identity theft. This brings the total IRS budget for fiscal year 2016 to \$11.2 billion. It is an important development for the IRS and for taxpayers, and is the first time in 6 years that the agency has received significant additional funding. It is a major step in the right direction, and I can assure the Congress that we will use these resources wisely and efficiently.

Even with this additional funding, however, the IRS is still under significant financial constraints. This is illustrated by the fact that the IRS appropriation remains \$911 million below the fiscal year 2010 enacted level and that the \$290 million increase is less than half the amount that had been requested for fiscal year 2016 in the three critical areas mentioned above. In addition, the IRS must absorb mandated cost increases and inflation during fiscal year 2016 that are greater than the additional funding provided. This year, we will need to continue the exception-only hiring policy that began in fiscal year 2011, leaving us unable to replace most employees we lose this year through attrition. Thus, although we will be undertaking additional seasonal and temporary hiring to improve our phone level of service (LOS), we expect the permanent IRS workforce to continue to shrink by another 2,000 to 3,000 full-time employees during fiscal year 2016, equaling a loss of over 17,000 since fiscal year 2010.

The President's fiscal year 2017 budget proposal for the IRS, described in more detail below, requests a base funding increase of \$530 million above the fiscal year 2016 enacted level. This would help the IRS across a wide range of tax enforcement

and taxpayer service activities. The budget also proposes a multi-year program integrity cap adjustment for tax enforcement activities, including \$515 million in fiscal year 2017 to reduce the deficit and narrow the tax gap, yielding net taxpayer savings of \$46 billion over the next 10 years.

While the multi-year decline in our budget was occurring, the number of returns filed grew by more than 10 million (or nearly 7 percent), from 153 million in 2010 to 163 million in 2015. Further increasing our workload, the IRS during this period has had to implement a number of significant legislative mandates, nearly all of which came with no additional funding. These include: the Affordable Care Act (ACA); the Foreign Account Tax Compliance Act (FATCA); the Achieving a Better Life Experience (ABLE) Act, which includes a new certification requirement for professional employer organizations; and reauthorization of the Health Coverage Tax Credit (HCTC). In fiscal year 2016 several additional legislative mandates were put in place that carried no implementation funding with which to execute them, for example, new passport restrictions, a private debt-collector program and a registration requirement for newly created 501(c)(4) organizations. We have had to defer hundreds of millions of dollars worth of important information technology (IT) projects and improvements since fiscal year 2014 in order to meet our statutory requirements to implement the ACA.

Against this backdrop, a fact that often gets overlooked is that the United States is much more efficient in its tax collection operations than most other countries. According to statistics compiled by the Organization for Economic Cooperation and Development (OECD), the average OECD member country spends \$8.87 to collect \$1,000 of revenue, while the United States spends only \$4.70. The tax administrations of Germany, France, the United Kingdom, Canada and Australia each spend twice as much as the IRS to collect a dollar of revenue. So while the IRS will continue to look for efficiencies in our operations, it is important to understand that we are one of the most efficient tax administrators in the world.

We continue to recognize the importance of spending taxpayer dollars wisely and working to strengthen our operations as we move forward. In that regard, the IRS has addressed a number of management problems that had developed in the past. Actions taken to solve these problems have in some cases been in place for several years. For example, spending on conferences has been reduced by 80 percent since 2010. In order to achieve this, since 2012, any division planning to spend more than \$20,000 on a conference is required to obtain prior approval from the IRS Commissioner. Any proposed conference expense over \$50,000 must also be approved by the Secretary of the Treasury or his designee. With regard to videos, any IRS division seeking to make a video must receive prior approval from an executive review board the agency created in 2013 for this purpose. As for performance awards, the IRS no longer pays such awards to IRS employees who are disciplined for serious misconduct issues or who have willfully failed to pay their taxes. In addition, processes are in place to ensure that the IRS does not rehire former employees who had significant conduct or performance problems during prior employment with the agency.

In the tax-exempt area, the IRS has acted on all of the recommendations made by the Treasury Inspector General for Tax Administration (TIGTA) in his May 2013 report describing the use of improper criteria in reviewing applications for tax-exempt status under section 501(c)(4). The changes we made in response to those recommendations include: eliminating the use of inappropriate criteria; implementing improved and expanded training for employees; expediting the processing of section 501(c)(4) applications; and establishing a new process for documenting the reasons why applications are chosen for further review, with appropriate oversight of the entire process.

In addition, the Department of the Treasury and the IRS followed TIGTA's remaining recommendation and began the process of drafting guidance on how to measure social welfare and non-social welfare activities of section 501(c)(4) organizations. In light of language in the appropriations legislation for fiscal year 2016, the IRS halted work on those proposed regulations.

Along with responding to TIGTA's May 2013 report, the IRS also has been working to address the recommendations by the Senate Finance Committee in its report issued last August. As we advised the Finance Committee in October, the IRS accepted all of the recommendations in the report that are within our control—those that did not involve tax policy matters or legislative action. They include 15 of the report's 18 bipartisan recommendations and also six of the recommendations in the separate sections prepared by the Majority and Minority. Moreover, I am pleased to report that the IRS has substantially completed action on all of these recommendations.

PLANNING FOR THE FUTURE OF THE TAXPAYER EXPERIENCE

Within our tight budget constraints, the IRS has also continued to analyze and develop plans for improving how the agency can fulfill its mission in the future, especially in delivering service to taxpayers and, along with that, maintaining a robust compliance program. Our goal is to improve and expand taxpayer services for all taxpayers, no matter what their circumstances.

In requesting adequate resources to allow the IRS to improve taxpayer service, it is important to point out that our goal is not to fund today's staff functions at historically high levels. We need to be, and are, looking forward to a new, improved way of doing business that involves a more robust online taxpayer experience. This is driven, in part, by business imperatives; when it costs between \$40 and \$60 to interact with a taxpayer in person, and less than \$1 to interact online, we must re-examine how we provide the best possible taxpayer experience, in response to taxpayer expectations and demands.

The improvements we are planning are a natural outgrowth of modernizations made to our business systems over many years. These include the development and implementation of the Customer Account Data Engine 2 (CADE2), which allowed the IRS to migrate to daily processing and posting of individual taxpayer accounts, enabling faster refunds for more taxpayers, more timely account updates and faster issuance of taxpayer notices. Another advance put in place several years ago was Modernized e-File (MeF), which processes tax returns electronically in real time, rather than in several batches a day. MeF has reduced turnaround time, and allows acknowledgments to be sent much more quickly to those who transmitted the returns.

After years of study, and in response to taxpayer demand, the IRS has also worked to improve our Web site, IRS.gov, and to provide more Web-based tools and services. These include the "Where's My Refund?" electronic tracking tool, which was used nearly 235 million times in fiscal year 2015, and the IRS2Go smartphone application. In fiscal year 2015, there were more than 2.3 million downloads of the application.

With regard to compliance programs, an excellent example of actions the IRS has taken to improve interactions with taxpayers involves our Large Business and International (LB&I) division. LB&I recently restructured its operations to center around issues, rather than organizations, which will focus resources to better meet taxpayers' evolving needs in a global environment.

An important change in the compliance area has been the development and phase-in of the Return Review Program (RRP), which delivers an integrated and unified system that enhances IRS capabilities to detect, resolve, and prevent criminal and civil tax non-compliance. Continued investment in the RRP will allow the IRS to retire the legacy Electronic Fraud Detection System (EFDS), and save between \$10 million and \$15 million a year.

Going forward, the IRS intends to further improve compliance programs through investment in an Enterprise Case Management (ECM) system, which will address the need to modernize, upgrade, and consolidate over 100 aging IRS case management systems. A unified case management environment will yield efficiencies by implementing standard case management functions, providing visibility across all types of tax transactions and improving data accessibility and usability.

Even with the improvements we have made and continue to make, we are at the point where we believe the taxpayer experience needs to be taken to a new level. Building on improvements made and new applications provided over the past 10 years, our goal is to increase the availability and quality of self-service interactions, which will give taxpayers the ability to take care of their tax obligations in a fast, secure, and convenient manner.

As I have discussed in numerous congressional appearances and speeches, the idea is that taxpayers would have an account with the IRS where they, or their preparers, could log in securely, get all the information about their account, and interact with the IRS as needed. Most things that taxpayers need to do to fulfill their obligations could be done virtually, and there would be much less need for in-person help, either by waiting in line at an IRS assistance center or calling the IRS.

As we improve the online experience, we understand the responsibility we have to serve the needs of all taxpayers, whatever their age, income, or station in life. We recognize there will always be taxpayers who do not have access to the digital economy, or who simply prefer not to conduct their transactions with the IRS online. The IRS remains committed to providing the services these taxpayers need. For example, while the IRS will continue to offer more Web-based services, taxpayers will still be able to call our toll-free help lines or obtain in-person assistance if that is their preferred method of receiving service from the IRS.

A good example of our commitment to serving all taxpayers, whether or not they participate in the digital economy, involves the return filing process. While the number of taxpayers who e-filed their income tax returns exceeded 85 percent last year and is expected to do so again this year, millions of people still choose to file paper returns. The IRS will not leave any taxpayer behind as we move into the future and will continue to offer individuals who prefer filing on paper the option to do so.

In moving toward the future of taxpayer service, it is also important to note that actions the IRS takes to help taxpayers increasingly will have a positive impact in the enforcement area, and will in turn help improve voluntary compliance. An excellent example of such an action is the Early Interaction Initiative we launched last December to help employers.

Under this initiative, the IRS seeks to identify employers who appear to be falling behind on their interim employment tax payments before they file their annual employment tax returns. The IRS will offer helpful information and guidance through contacts such as letters and automated phone messages. In the past, the first attempt by the IRS to contact an employer having payment difficulties often did not occur until much later in the process, after unpaid tax obligations were already beginning to mount. This initiative is designed to help employers stay in compliance and avoid needless interest and penalty charges. You could call this initiative a form of improved taxpayer service, or a more efficient enforcement activity. We believe that it is both.

This initiative illustrates why I believe it is important to view taxpayer service and enforcement as two sides of the same coin. While the IRS collects \$50 billion to \$60 billion a year as a result of our enforcement operations, those numbers pale in comparison to the more than \$3 trillion that is collected each year as a result of taxpayers voluntarily fulfilling their tax obligations. That is why we continue to be extremely concerned about the decline in both taxpayer service and enforcement as a result of the continued cuts in IRS funding. These declines threaten to undercut the basic voluntary compliance fabric of our tax system. If you consider that a one-percent drop in the compliance rate translates into a revenue loss of approximately \$30 billion a year, or \$300 billion over the ten year budget window often used, then declining voluntary tax compliance results in a cut to the funds the Government needs to operate.

THE ADMINISTRATION'S FISCAL YEAR 2017 BUDGET REQUEST

In preparing the fiscal year 2017 budget request, the IRS's senior leadership recognized the need to prioritize funding of key activities that help support enhanced digital service delivery discussed earlier in this testimony, while preserving the agency's core mission functions. As a result, the IRS established a new investment process and created six key strategic themes that outline how the agency will execute tax administration to meet the needs of taxpayers in the future. IRS leadership set priorities for new investments based on how those investments align with these themes:

- Facilitating voluntary compliance by empowering taxpayers with secure innovative tools and support;
- Understanding non-compliant taxpayer behavior and developing approaches to deter and change it;
- Leveraging and collaborating with external stakeholders;
- Cultivating a well-equipped, diverse skilled workforce;
- Selecting highest-value work using data analytics and a robust feedback loop; and
- Driving more agility, efficiency and effectiveness in IRS operations.

Following from these themes, the administration's fiscal year 2017 budget request includes a number of initiatives that provide the building blocks to move the IRS into the future. These initiatives represent a large portion of the increased funding requested in the IRS budget for fiscal year 2017. They are as follows:

Additional funding to improve taxpayer service: \$48 million.—Under this initiative, the IRS will work both to improve taxpayer service delivered through traditional channels and continue modernizing the services we offer in order to help transform the taxpayer experience.

The additional staffing funded by these resources by itself will deliver phone level of service (LOS) for the full year on our toll-free helplines at 53 percent; if the President's budget is enacted in full, the IRS will be able to combine this funding with additional resources through user fees to achieve a 70 percent LOS throughout the year. It is worth noting, however, that we expect to have the lowest user fee balance

available for carryover to fiscal year 2017 since 2008, meaning that we will not have that contingency available to boost service if other needs are not sufficiently funded.

In terms of modernizing the taxpayer experience, the additional funding will allow the IRS to continue moving toward the development of: secure online taxpayer accounts; secure online digital communications between the taxpayer and the IRS; and new Web-based self-service products and more interactive capabilities to existing products, so that taxpayers would potentially be able to, for example, securely authenticate their identity, view and print tax records online, pay outstanding debts, enter into installment agreements, establish powers of attorney, and get tax law information.

Taken together, these improvements will ultimately allow taxpayers to resolve more issues online, leaving our employees more time to support the transactions that are best completed by phone or in person.

Additional funding to continue implementing the Affordable Care Act: \$153 million.—The additional funding provided by this initiative, above current resources, will allow the IRS to develop advanced technology infrastructure and applications support and to modify existing IRS tax administration systems, so the agency can continue implementing the tax-related provisions of the ACA.

For example, the funds will improve the IRS's ability to: validate taxpayer claims for the premium tax credit; collect penalties, taxes and fees related to the ACA provisions that the IRS administers; and administer the individual shared responsibility provision. The additional funding also supports administration of the new reporting requirement for health coverage providers, as well as the employer shared responsibility provision, both of which took effect in 2015.

To further illustrate the importance of funding this initiative, I would note that over the last several years the IRS has had to divert resources from other critical functions, including taxpayer service and IT, and expend user fees to fund ACA implementation. In particular, these diversions have depleted user fees and made it difficult to use those fees to help fund core mission activities and other unfunded legislative mandates.

Additional funding to leverage new technologies to advance the IRS mission: \$53 million.—Under this initiative, the IRS will continue using new technologies to develop critical IT systems needed to support the IRS's taxpayer service and enforcement programs. This includes making improvements to such systems as CADE2 and MeF. The IRS will also be able to provide the necessary IT infrastructure to support efforts to improve the online taxpayer experience, including the infrastructure portions of secure digital communications and more interactive capabilities to existing web-based self-service products.

Another major component of this initiative is the implementation of the Event Driven Architecture (EDA) framework, which is designed to improve return processing by allowing the IRS to process and share data from returns more easily. Through the use of EDA, for example, returns with minor errors can be addressed at the time of filing. Implementation of EDA is a prerequisite for a number of planned improvements to the online taxpayer experience, including immediately notifying taxpayers of errors on a return as soon as it is filed, and allowing taxpayer to self-correct return errors through an online tool.

Additional funding to help prevent stolen identity refund fraud and reduce improper payments: \$90 million.—The IRS has made significant progress in combating stolen identity refund fraud over the last several years, though it has been a challenge to find the resources for investments in this area because of the ongoing cuts to our budget. We therefore appreciate the additional funding Congress approved for fiscal year 2016 for cybersecurity and identity theft.

Nonetheless, the IRS needs to continue investing in resources and tools to stay ahead of criminals. The additional funding requested under this initiative will allow the IRS to invest in the additional staffing and technology to continue improving our efforts to: detect and prevent refund fraud related to identity theft; assist identity theft victims; and apprehend the criminals who perpetrate these crimes.

With this additional staffing, the IRS will be able to, for example: resolve taxpayer cases of tax-related identity theft more quickly, and expand the capacity of the IRS's Identity Protection Specialized Unit (IPSU) to handle additional cases; expand the IRS External Leads program, through which the IRS works in cooperation with financial institutions, State agencies and other external sources to recover fraudulent refunds; and do a better job of detecting prisoner refund fraud through the use of Prisoner Update Processing System (PUPS) data.

Technology investments under this initiative will allow the IRS to make a number of other improvements, including: reducing the use of Social Security Numbers (SSN) on IRS mailings to taxpayers; establishing a centralized fraud repository

within the IRS to expand the agency's ability to identify significant tax cases and streamline and standardize the fraud referral process; and accelerating IRS access to employment tax data from the Social Security Administration (SSA).

Additional funding to improve electronic enterprise records management: \$19 million.—The additional funding provided under this initiative will allow the IRS to continue its efforts to manage official records more effectively through the implementation of new systems to maintain unified records of IRS policy, program and project development, and to create a unified searchable archive of IRS e-mails to avoid redundant archiving. By making these improvements, the IRS will be able to respond in a timelier manner to legal and congressional inquiries and requests under the Freedom of Information Act (FOIA). These improvements, which will be phased in over several years, will allow the IRS to more easily comply with various recordkeeping requirements under the Federal Records Act.

The investment-related increases I have just described must be viewed in the context of the overall budget request for the agency. The President's fiscal year 2017 budget provides \$12.3 billion for the IRS, an increase of \$878.5 million in investments and an additional \$167 million in funding for inflation for a total of \$1.045 billion over the fiscal year 2016 level. This amount includes \$11.8 billion in base discretionary resources and an additional proposed \$514.7 million program integrity cap adjustment to support program integrity efforts aimed at restoring enforcement of current tax laws to acceptable levels and to help reduce the tax gap, which is the difference between taxes owed and taxes paid on a timely basis. This multi-year effort is expected to generate \$64 billion in additional revenue over the next 10 years at a cost of \$18 billion over that 10-year period, thereby reducing the deficit by \$46 billion.

Enactment of the program integrity cap adjustment proposal would facilitate funding for several initiatives, including the following:

Additional funding to strengthen enforcement programs: \$399 million.—This set of initiatives allows for investment to strengthen core enforcement programs to help the IRS improve the resolution of non-compliance with fairness and integrity. Budget cuts over the last several years have led to rising case inventories and call volumes, preventing the IRS from bringing into compliance taxpayers who fail to pay their tax debt, and reducing individual audit coverage to levels below 0.8 percent. As statistics released recently by the IRS show, this trend continued in fiscal year 2015. The number of individual audits completed in fiscal year 2015 was about 14,300 less than the previous year, and dropped to the lowest level in a decade. Additionally, the individual audit coverage rate in fiscal year 2015 was the lowest since 2004, and audit revenue continued to decline as well.

With this additional funding, the IRS will be able to: increase collection and audit coverage; conduct compliance activities related to FATCA; pursue employment tax noncompliance and abusive tax schemes; increase investigations of transnational organized crime; and develop a digital version of the Form 990, *Return of Organization Exempt from Income Tax*.

The investments made through this initiative will, for example allow us to: handle more than 30,000 additional collection cases; close more than 32,000 additional individual audits; expand the Automated Underreporter (AUR) program to process more than 400,000 additional cases; and implement a quality review program for penalty and interest.

Additional funding to maintain the integrity of revenue financial systems: \$10 million.—The current revenue financial systems do not use commercial software, so the IRS is reliant on internal resources to maintain them. This investment will merge multiple financial systems into one repository to ensure the integrity of the IRS's financial data and make necessary changes to ensure that systems comply with accounting standards and requirements. This will automate reconciliations of the IRS ledger systems and assist in the gathering of data to respond to audits by TIGTA and the Government Accountability Office (GAO). Savings and efficiencies will be achieved in future years through the reduction or elimination of the resources required to maintain the multiple systems supporting operational decisionmaking and the financial audit. This will close a material weakness.

Additional funding for operations and maintenance of deployed Business Systems Modernization (BSM) projects: \$92 million.—The IRS receives funding for major IT modernization projects through the BSM appropriation, but BSM funds can only be used for developing new systems. Once development is completed, regular operations and maintenance begins, and the IRS is required to pay for this maintenance through its Operations Support appropriation. Since 2013, the IRS has incurred more than \$95.5 million in unfunded increased annual requirements to its Oper-

ations Support appropriation as a result of BSM systems deployments. The additional funding requested partially restores the Operations Support base so that the funding will not have to be redirected from other areas to pay for the operation of deployed BSM projects. Resources will fund additional staff, hardware and software, and contractual services for these deployed systems.

LEGISLATIVE PROPOSALS TO IMPROVE TAX ADMINISTRATION

The IRS appreciates the actions taken by Congress last year to approve legislation designed to improve tax administration. These measures include: accelerated filing dates for information returns; allowing SSNs to be masked on W2 forms and other information returns; creating a safe harbor for minor errors on information returns; and expanding the due diligence requirements for paid tax return preparers.

The President's fiscal year 2017 budget contains several additional legislative proposals that would further improve tax administration and enhance IRS operations. They include:

Streamlined critical pay authority.—The IRS Restructuring and Reform Act of 1998 increased the IRS's ability to recruit and retain a small number of key executive-level staff by providing the agency with streamlined critical pay authority. This allowed the IRS, with approval from Treasury, to hire well-qualified individuals to fill positions deemed critical to the agency's success in areas such as international tax, IT, cybersecurity, online services and analytics support. This authority, which ran effectively for 14 years, expired at the end of fiscal year 2013. The loss of streamlined critical pay authority has created major challenges to our ability to retain employees with the necessary high-caliber expertise in the areas mentioned above. In fact, as of today there are only 10 IT senior executives and leaders hired under this authority remaining at the IRS and we anticipate there will be no staff left under critical pay authority by next year. The President's fiscal year 2017 budget proposes reinstating this authority.

Authority to expand the Taxpayer Identification Number (TIN) matching program.—The IRS operates a voluntary program under which entities that issue payments subject to backup withholding can confirm with the IRS that the name and TIN of the person receiving the payment match the name and TIN on file with the IRS. Although IRS code section 6103 generally prohibits the IRS from disclosing taxpayer data, the agency is permitted to disclose this information to payors under authority of section 3406. But this authority only covers instances where payments are subject to backup withholding. The proposal would broaden the agency's authority to cover any situation where a person is required to provide the TIN of another person to the IRS.

Correction procedures for specific errors.—The IRS has authority in limited circumstances to identify certain computation mistakes or other irregularities on returns and automatically adjust the return for a taxpayer. At various times, Congress has expanded this limited authority on a case-by-case basis to cover specific, newly enacted tax code amendments. The IRS would be able to significantly improve tax administration—including reducing improper payments and cutting down on the need for costly audits—if Congress were to enact the proposal in the President's budget that replaces the existing authorities that specify specific tax code amendments with authority to correct specific errors instead. This would allow the IRS to fix errors where the IRS has reliable information that a taxpayer has an error on his/her return. Thus, for example, the IRS could use data from completed State tax return audits to adjust information on the Federal return.

Authority to require minimum qualifications for return preparers.—The proposal would provide the agency with explicit authority to require all paid preparers to have a minimum knowledge of the tax code. Requiring all paid preparers to keep up with changes in the Code would help promote high quality services from tax return preparers, improve voluntary compliance, and foster taxpayer confidence in the fairness of the tax system. It would thereby help the IRS to focus resources on the truly fraudulent returns.

Expanded electronic filing requirements for businesses.—The proposal would require all corporations and partnerships with \$10 million or more in assets to file their tax returns electronically. In addition, regardless of asset size, corporations with more than 10 shareholders and partnerships with more than 10 partners would be required to file electronically. Paid tax return preparers who expect to prepare more than 10 corporate income tax returns or partnership returns annually would be required to file these returns electronically. Additionally, all tax-exempt

organizations required to file Form 990 series returns would be required to file electronically.

Chairman Boozman, Ranking Member Coons and members of the subcommittee, this concludes my statement. I would be happy to take your questions.

FISCAL YEAR 2015 PERFORMANCE AWARDS

Senator BOOZMAN. Thank you. For the past few years, the IRS provided approximately \$60 million in employee bonuses each year, and in the past, the IG has found that awards were given to employees with tax compliance problems and other misconduct issues.

How much did you pay out in employee bonuses in fiscal year 2015?

Mr. KOSKINEN. We are still calculating it, but we will again be providing that. They are not bonuses, they are performance awards. Thirty to forty percent of employees do not get any payment. The average payment is about \$1,000 to \$1,200. As I say, nobody is going to Bimini with the money.

We have cut the amount that is being provided over the last several years. Three or 4 years ago, the number was in the \$85 to \$90 million range. We negotiated with the Union that the pool would be decreased by three-quarters, from 1¾ percent to 1 percent.

The amount of money being paid is smaller than it used to be. We have taken everyone's advice. We no longer pay—we have negotiated with the Union—performance awards, even if they are qualified for it, to anyone who has a 1203(b) violation or serious conduct issue. We have responded to those and other suggestions as to how we can improve administration.

Senator BOOZMAN. When do you think you will have the information to provide to the subcommittee?

Mr. KOSKINEN. We can give it to you, but it is going to be in the same ballpark, \$55 or \$60 million. It is going to go on an average of \$1,000 to \$1,200, and it is going to go to 50–55 percent, perhaps 60 percent, of the employees. They are performance awards. They are performance based.

[The information follows:]

FISCAL YEAR 2015 PERFORMANCE AWARDS PAID IN NOV/DEC 2015*

Employee Type	IRS	Chief Counsel
Bargaining Unit Employees	Aggregate Amount of Awards Pool: \$31,110,801.00 # of Awards: 36,325 Average Award Amount: \$967.00	Aggregate Amount of Awards Pool: \$1,014,641.00 # of Awards: 744 Average Award Amount: \$1,363.76
Non-Bargaining Unit Employees	Aggregate Amount of Awards Pool: \$8,291,262.00 # of Awards: 6200 Average Award Amount: \$1,199.00	Aggregate Amount of Awards Pool: \$461,925.00 # of Awards: 246 Average Award Amount: \$1,878.00
Managers	Aggregate Amount of Awards Pool: \$7,470,245.00 # of Awards: 5354 Average Award Amount: \$1,357.00	Aggregate Amount of Awards Pool: \$622,299.00 # of Awards: 222 Average Award Amount: \$2,803.15
SES	Aggregate Amount of Awards Pool: \$1,673,666.00 # of Awards: 118 Average Award Amount: \$14,183.00	Aggregate Amount of Awards Pool: \$41,950.00 # of Awards: 10 Average Award Amount: \$4,195.00

* Fiscal Year 2015 Performance Award Spending figures are still estimates. Percentages of employees receiving awards not yet available. These amounts are lower than amounts paid several years ago.

PERFORMANCE AWARDS

Senator BOOZMAN. Did any of those go to employees with conduct issues or unpaid taxes?

Mr. KOSKINEN. Anyone with a conduct issue or who did not pay taxes is not eligible for a performance award.

Senator BOOZMAN. But they received them in the past?

Mr. KOSKINEN. In the past, but in the last 2 years we have changed that system.

Senator BOOZMAN. I guess the question is, Secretary Lew mentioned if you go to the call centers, you see empty chairs that are not filled answering the phone. Why are the employee bonuses a priority over funding other critical missions of the agency?

Mr. KOSKINEN. As a general matter, it is important to encourage and reward performance, and certainly with the shrinkage of our workforce—as I said, we will be down 17,000 people—we feel it is important if we are going to have an effective operation of tax administration and taxpayer service to provide performance awards, which we have historically provided throughout the history of this organization, and to continue to provide them to the employees. We cannot fund this operation on the backs of employees.

IRS EFFORTS TO COMBAT SCAMS

Senator BOOZMAN. Taxpayers have been hit with an increasing number of scams this filing season. We talked about this prior to the hearing. The IRS has seen approximately a 400 percent increase, a surge, along with a surge in phone scams, the scam artists threaten police arrest, deportation, license revocation, and other disturbing things.

Can you talk some about the steps you have taken in regard to pursuing this type of crime, these types of criminals?

Mr. KOSKINEN. It is a critical problem, as the Secretary noted. The private sector, as well as all Government agencies and State and local governments are increasingly under attack by increasingly sophisticated criminals.

We find as we monitor this and we work closely with the Inspector General that the range of scams run from phone scams, where people call threatening people, impersonating as IRS employees, to very sophisticated criminal syndicates around the world who have volumes of personal identification information from taxpayers and who can masquerade effectively as taxpayers.

On the phone scams, for the last 2 years we have been pushing out as much information as we can, warnings, to the public to say, as I have said, “If you are surprised to be hearing from us, the chances are pretty good you are not hearing from us.”

Certainly, we would never threaten anyone with jail, never threaten anyone with some law enforcement activity within 24 hours. Ultimately, we would never ask them to make a payment into a debit card account or bank account. Anyone who pays their taxes pays a check to the United States Treasury.

GET TRANSCRIPT

On the other end of the spectrum, with the sophisticated criminals we have, our systems are getting better. You have to understand that this is a moving target. As the IG has noted—and we worked with them when we first set up Get Transcript, for instance, 3 or 4 years ago—everyone at that point was relying on out

of wallet questions, on the theory that you would know those and no one else would.

It has now become clear that, not in every case, but certainly in the Get Transcript case, criminals have enough information on an estimated over 100 million Americans that they can effectively masquerade as the taxpayers. Half of them did not get through when they tried to access, but the other half did.

Now, we have taken Get Transcript down. We are actually now moving toward what is called “multifactor authentication,” which is difficult for us because we do not have other ways of communicating with taxpayers. We write people letters.

We do not have access to their e-mail accounts. We do not have access to their cell phone accounts. We have been working with the Department of Homeland Security and experts in the private sector to be able to stand Get Transcript up in a more effective way.

As the Secretary said, the balance is always that the more difficult we make it for criminals, the more difficult we make it for the average taxpayer.

Even with the out of wallet question system, over 20 percent of legitimate taxpayers could not get through. They could not answer their own out of wallet questions, and in fact, as I used to say, criminals sometimes can answer them more effectively than you can.

All of these are impersonation scams. Fortunately, knock on wood, cyber breaches—getting into our system—have not taken place yet, although we operate on the theory that it will happen any time. We are attacked close to a million times a day. If you had a white light flashing every time someone was pinging our system to get in, it would just be a steady stream of light.

One of the reasons I am so concerned about our ability to hire and retain critical IT people is that we have one of the world’s greatest databases. We have data on over 300 million taxpayers. It is why criminals and syndicates around the world, whether they are in China, Asia, Russia, or the Middle East, are actually anxious to try to figure out how to get in.

So, it is the highest priority for us to protect taxpayer data, to protect the taxpayers, but it is an ongoing battle and we should not underestimate the severity.

Senator BOOZMAN. In regard to the Get Transcript application, the IRS will eventually send out over 1.7 million letters that are being mailed to affected taxpayers. Over 1.3 million have or will be offered credit monitoring. It is unclear what protection, if any, might be offered to the children or dependents whose information also appears on the transcripts.

So, I want you to talk about that in a second. Also, is there a deadline to apply for the credit monitoring?

Mr. KOSKINEN. At this point, we provide credit monitoring. Actually, the 1.3 million is the total number of people that are involved. There are about 700,000 who actually had transcripts accessed.

It is when you actually had your transcript accessed that we provide the credit monitoring. There are other letters just to warn people that criminals have their data, and while no taxpayer information went out on our system, we felt it was important for taxpayers to know that criminals are actually—

Senator BOOZMAN. The children and dependents, what about them?

Mr. KOSKINEN. At this point we provide the credit monitoring to the taxpayer. To the extent that the taxpayers feel they are exposed in any other way, we will talk with them about that as well. The basic monitoring is for the taxpayers.

Senator BOOZMAN. Is there a deadline for a sign-up?

Mr. KOSKINEN. Usually what happens, to the extent people take up the offer, they will do it fairly quickly. But the letter informs the affected taxpayers they have 90 days to enroll. We understand people may think about it.

Senator BOOZMAN. Thank you. Senator Coons.

Senator COONS. Thank you, Mr. Chairman. Thank you, Commissioner Koskinen, for your testimony today and your service.

FUTURE STATE

I want to talk briefly about the future state of the IRS, your plans around future state, and some of the concerns you have just been discussing with the chairman about cybersecurity and about the Get Transcript problems, and some of the investments that need to be made in IT security systems.

Mr. KOSKINEN. We have no shortage of challenges.

Senator COONS. You have no shortage of challenges. So, just tell me how will you alleviate concerns raised that in the so-called "future state," where many more taxpayers will be filing online and they will be accessing services online, if I understand correctly, how do you address concerns about access to the Internet, about confidence and comfort with your ability to keep personal data secure, and with the experience that the average taxpayer will have as you transition to providing more taxpayer services online?

Mr. KOSKINEN. I work closely with the Taxpayer Advocate, who does very good work. The report misstated where we are going with Future State. The Future State is not some new plan that we have been working on for the last 2 years. We have been moving toward providing improved, expanded taxpayer service since the Reorganization Act. The Reorganization Act in 1998 required us to set up an online account, develop an online account for taxpayers.

But as I have said publicly for the last 3 years, 2½ years, we understand we are not like a normal financial institution in the sense that we cannot take a group of people and say, "well, they do not provide enough money," or "they are too big of a problem, we will leave them for somebody else."

We willingly accept the responsibility to deal with 150 million individual taxpayers in any way that they find most convenient.

The goal of moving to a Future State where you have an online secure account, the way you do with your bank or financial institution, is to get people, in effect, off the phones who do not want to be there. People would much rather, according to our surveys, deal with us electronically, the way they deal with either purchases or financial institutions.

To the extent we can do that, it means we will free up our call centers and our taxpayer assistance centers for the people who want to be there, or need to be there. We have no intention of clos-

ing down our call centers. We have no intention of getting out of the taxpayer assistance center business.

It is important, and Get Transcript is a good example. While we had a serious issue, that we dealt with last filing season, 7 to 8 million legitimate taxpayers downloaded 23 million transcripts. Those people, in the old days, would have called. That would have been 7 to 8 million more calls.

One of the issues we are trying to address is getting people online where they can—last year, 235 million people went to our Web site to find out where their refund was. In the old days, they would call us.

So, to the extent we can move people who would like to, and who have access to the Internet, onto the Internet, it frees up our resources to be more effective in servicing taxpayers who either do not have access or are uncomfortable, those who need to be there.

With regard to security, we, like banks and financial institutions, understand an online account where you can actually transact with us, as opposed to just get information, has to be secure. That is why we have spent the last 9 months with experts in the Government and outside the Government to figure out how can we best provide what is called “multifactor authentication.”

We are about to start testing that system in the next couple of weeks. We expect to have the Get Transcript system up and back online, but again, unfortunately at the front end, it is going to be more difficult for people to access it as we go forward. We hope to refine that over time.

I do think it is important that taxpayers not only be confident that the system is secure, but that it actually has to be as secure as we can make it. In the context of our earlier discussion, just as the banks are concerned—I saw an article recently that the banks were worrying about billions of dollars in credit card fraud every year—this is an ongoing problem that we are going to have to continue to deal with.

My goal is for us to get out of the situation of being reactive, and get to a point where we can at least be even with the criminals, and begin to anticipate where will they show up next. The Get Transcript situation is a reflection of the fact that our filters were getting better and better for fraudulent returns, so the criminals felt the need to get, to the extent they could, information about last year’s tax return so their fraudulent return this year would be more accurate.

INFORMATION SECURITY AND TAXPAYER ASSISTANCE

Senator COONS. Commissioner, how does your funding request provide adequate budgetary and human resources to address these concerns and GAO recommendations about information security deficiencies? First.

Second, I am interested in taxpayer assistance, particularly to low income taxpayers. A recent article in my home town paper, the News Journal, said that about 20 percent of Delawareans eligible for the EITC were unaware and did not file. You have done, I think, a strong job of partnering with community organizations to try to do outreach and to try to make folks aware of their potential

eligibility for things like the Earned Income Tax Credit (EITC) through an Annual Awareness Day.

What additional efforts are you going to be making to ensure that programs like Volunteer Income Tax Assistance (VITA) that provide support for community organizations that do EITC outreach will continue?

EITC OUTREACH

Mr. KOSKINEN. We do that. We have at the start of filing season every year, a program across the United States called EITC Awareness Day. We expect that about 80 percent of people who are eligible apply for the EITC. Part of the problem is the number of beneficiaries turn over by about a third a year. People either earn more money or they drop out of the workforce.

We are forever, on the one hand, reaching out to people and trying to get them to participate, but on the other hand, struggling mightily with improper payments, trying to make sure the right people get the right amount. That is why getting the W-2s earlier, as you approved for next year, will help us significantly in that regard.

We are in this ironic position of being a social welfare agency on the one hand, trying to provide funding to people, and at the same time trying to police the system to make certain the amounts paid are appropriate.

Senator COONS. How do you believe the request that you are making this year addresses both TIGTA's concerns and the GAO's concerns in terms of—

Mr. KOSKINEN. The bulk of our outreach is done by people in the field touching people. We have 12,000 VITA sites that we train. The funding would allow us to—

Senator COONS. I am sorry, Commissioner, if I have confused you. I tried to ask two questions to prevent you from filibustering my request.

Just on cybersecurity, unrelated to the EITC, just on cybersecurity, how does your request deal with the concerns that GAO has raised and that TIGTA has raised about information security?

CYBERSECURITY

Mr. KOSKINEN. As I noted, we are devoting \$95 million of the money you gave us this year to cybersecurity, which will allow us to do things like segmenting our systems, monitoring them internally better. There is another \$90 million that is in the President's budget to allow us to, in fact, continue that work.

As I noted, we genuinely appreciate the \$290 million, but it was out of a request for \$700 million of additional funding in the areas of taxpayer services, identity theft, and cybersecurity. Again, this year we hope we will have a constructive dialogue and taxpayer service will get better with additional funding, that we will be able to deal with identity theft better, and with additional money for cybersecurity, we will be able to protect the database.

Senator COONS. Thank you, Commissioner.

Senator BOOZMAN. Senator Lankford.

Senator LANKFORD. Thank you, Mr. Chairman. Thank you, Mr. Commissioner, good to see you again.

Mr. KOSHINEN. Good to see you.

EITC STAKEHOLDER SUMMIT

Senator LANKFORD. Let me ask you about the EITC Stakeholder Summit that is going on. What we need is one more summit, but we do need a solution to this. What do you expect to get out of this summit and the people that are gathered there?

Mr. KOSKINEN. We would hope that somebody is going to come up with additional ideas. When I started over 2 years ago, we held an internal meeting of everybody in the IRS who had ever dealt with this problem, to try to figure out okay, what does it take to solve this problem? We have been working on it for 10 years and made relatively little progress.

Senator LANKFORD. You and I have had multiple conversations about it.

LEGISLATIVE PROPOSALS

Mr. KOSKINEN. Right, and out of that came the request for W-2s earlier, which I think we will find will help significantly.

Out of that came a request for requiring minimum qualifications for tax preparers. It is not that they are crooks and you are never going to get them out of business, but this is a complicated statute and a lot of preparers have no background in it at all. As somebody said, your barber has more qualifications and has to go through more standards to cut your hair than to prepare your taxes, which he does not have to do at all. That will help significantly.

If we could get what we are now calling "correction procedures for specific errors," that would help. Part of our problem is we audited about 350,000 EITC returns last year, about a third of our audits are in that area, trying to, in fact, fight improper payments wherever we can.

Our problem is if we have a database from Social Security or someone else, a reliable database, and we can see an error in the return, the only way we can make that correction is to actually go out and do an audit. We send you a letter, have somebody contact you in the field.

If we had this authority—it used to be called something else—we are trying to say for specific errors, we would have a correction procedure that, much like math error, would say if you say you earned X and Social Security tells us you earned Y, we make the adjustment, let you know the adjustment. You still have all your rights to object and say no, I really did earn that money or did not earn that money as the case may be.

At that point, we have made the adjustment, we have stopped the payment. Right now, all we can do is send you a letter and audit you. Otherwise, the payments have to go through. It frustrates our people to no end to say we have not got enough resources to audit people, and in fact, we are never going to audit our way out of the problem. But if we can increase the capacity of return preparers, who prepare almost 60 percent of these returns, to understand what the statute is, if we can get W-2s earlier, which

we will, and match them, and if we have the ability, when we see an error, to correct it, then I think we will begin to make a dent.

Senator LANKFORD. That is a legislative correction.

Mr. KOSKINEN. Yes, the correction procedure would be a legislative change, as would be the minimum qualifications for tax preparers.

Senator LANKFORD. We have talked before about dual tracking on returns, when you talk about the ability, if you are a certified preparer and you have this certification, your tax return comes out faster. All these tax preparers all advertise the same thing, speed.

You are in the normal lane if you are certified, if you are not certified, you are in the slow lane, basically. That is an incentive for folks to be able to go and be able to get—

Mr. KOSKINEN. As we discussed, I thought that was a creative idea. One of the things we have done along those lines, we have a voluntary return preparer program, where you get a Certificate of Completion. What we have said for this year is, if you do not have a Certificate of Completion, you cannot represent the taxpayer in tax matters. You have to be either a CPA or an enrolled agent who is already qualified, a tax attorney, or you have to have a Certificate of Completion to be able to represent the taxpayer.

Again, our hope was that will encourage taxpayers to say well, if you do not have a certificate, then you cannot represent me. I am going to have to find another preparer.

It is the same theory if can we incentivize people to get the minimum standards of education. We are not talking about regulations. We just want them to have—

Senator LANKFORD. Just to know the rules.

Mr. KOSKINEN. Exactly. It is a complicated statute, so it is not as if it is easy. Yes, they ought to know the rules and they ought to be able to demonstrate that before they can hang out a shingle.

Senator LANKFORD. Is there anyone in your agency, whether it is you or someone else, that can make proposals to Congress to simplify this very complicated statute?

Mr. KOSKINEN. Yes.

Senator LANKFORD. I know you all deal with this all the time.

Mr. KOSKINEN. The policy issues really are the domain of the administration and the Congress.

Senator LANKFORD. I understand.

Mr. KOSKINEN. When I say that, I am usually going to tell you a policy issue. If you could streamline the statute, it would make it easier for preparers, for beneficiaries, and certainly for the IRS for tax administration.

DATA SHARING

Senator LANKFORD. Okay. As you are sharing databases among the Federal Government, you talked about Social Security before, which database is the most reliable that you actually share information with back and forth that is helpful to you, or which database do you need to have access to that you do not?

Mr. KOSKINEN. I am sorry, which?

Senator LANKFORD. Databases. Which database do you have access to, that you do not have access to. You mentioned Social Security.

Mr. KOSKINEN. Social Security. There is a new hire database. It gives you information for people moving into the workforce, and for which we do not have total access, which would be very helpful.

Senator LANKFORD. Why? Is it statutory that you do not have it or why?

Mr. KOSKINEN. It would be helpful. There is a question of whether the Agency has the authority to provide it to us. If we had statutory authority that made it clear, that would make life easier.

ID THEFT

Senator LANKFORD. Okay. I.D. theft has been a huge issue. You and I have talked about it as well before. Some of the things were addressed in the omnibus bill last year to deal with some basic I.D. theft, and some of the verification parts of it.

What is pending at this point, and what do you need to further finish out the I.D. theft part of this?

Mr. KOSKINEN. I.D. theft is primarily a question of making sure we have resources at the right level, and that is why I feel so strongly about streamlined critical pay.

Senator LANKFORD. You have the 16 digit pilot program coming out with the W-2s this year; is that correct?

Mr. KOSKINEN. Yes.

Senator LANKFORD. Do you have any preliminary data on how it is being used?

Mr. KOSKINEN. Yes. Thus far, this pilot program—which basically provides an algorithm to the W-2 so we can verify it, and we have four tax preparers participating with us—does exactly what we expected. We can actually take people, when we have a verified W-2, and move them out of the queue for holding their refunds up while we are looking at them, and it allows us to have greater confidence that the suspicious returns are, in fact, worth looking at. In fact, if you cannot create the algorithm, it means there is some real risk, that the W-2 is false.

That is a significant step forward. The biggest change we have made since I testified here last, just about a year ago I brought the CEOs of the major tax preparers, software developers, payroll providers, and the State Tax Commissioners to a meeting in Washington.

I told them the purpose was not for me to tell them what to do, the purpose was for us to form a partnership, to work together across the entire tax system to try to fight identity theft. We have had a tremendous positive response from the private sector as well as the States.

It has resulted in this filing season, already, a significant volume of sharing of information of suspicious activities and what are called “leads” from the private sector and us. We share information back to them in a way that we have never been able to do before.

The response was such that by last summer, the private sector participants moved from requesting to demanding that we make it permanent, which we are going to do, because it is an effective partnership. It allows the States to work together and have standards.

At the first meeting, the private sector people said, “well, we need to have a standard for what authentication we are going to

require of our clients, and you have to provide that." I said "well, I am happy to do that as long as it is a standard that you all design with us and that you can live with." It has happened.

We also had 83 percent of tax preparers already providing us leads of suspicious activities that are going on.

Of all the things we have done, it is probably going to be the most significant step, going forward, we have taken because the partnership with the private sector and the States means we are now including financial institutions where refunds are deposited.

Hopefully, we will authenticate taxpayers at the front end more significantly when they go to their preparer. Our filters are getting more and more sophisticated, so we will stop suspicious returns, and to the extent financial institutions can identify deposits—

Senator LANKFORD. Multiple deposits in the same account.

Mr. KOSKINEN. Yes, multiple deposits in the same account, deposits into an account that is not the taxpayer's account. We think all of that is going to help.

Senator LANKFORD. Okay. Thank you.

Senator BOOZMAN. Senator Mikulski.

THE STATE OF THE IRS

Senator MIKULSKI. Thank you, Mr. Chairman. Mr. Commissioner, first of all, I want to welcome you to the committee. I also want to thank you for being willing to serve as the IRS Commissioner.

You are under tremendous stress, the stress of the budget, the stress of the taxpayers being frustrated that you are not able to respond to them the way they would like, with the unanswered phone calls, and you are under the stress of the Congress.

This was a very civil hearing, as characteristic of both the chair and the ranking member. I have watched you just be harassed and berated and belittled, and I am sorry about that. I want to thank you for what you do, and I also want to thank the thousands of people who work for the IRS.

I am very proud of the fact that IRS is headquartered in Maryland. When I move around, this is what they say to me. Barb, help us do our job. Barb, we want to be able to collect the taxes. Barb, we want to answer those phones. What can you do to get us the money? They are telling me to tell the Congress do our job so they can get to do their job. I hear it as I move around, and I am just impressed by their dedication.

That is what we need to do, collect the taxes owed, \$385 billion. That is outrageous that is uncollected, and it is uncollected because some people avoid and some people do not know.

Then it is to help the taxpayers, so many, with over 150 million returns being filed, 10 million letters, 5 million visits, 100 million phone calls to IRS. Wow.

Then there is the schemers and the scammers. I want to get to that. People over a certain age, put me in that category, are now the victims of these targeted scams. I, myself, was most recently targeted where I got this phone call saying you are being sued by IRS, all you need to do is give us your Social Security number to validate that is who you are, by the way, give us your credit card

number and the pin number, and do you have your bank account number so you can do the electronic transfer.

Well, it is not that Barb Mikulski was targeted, it is all the other people over the age of 65 that are being targeted.

I say to my colleagues, Senator Collins who chairs the Committee on Aging and Senator McCaskill, have done a great job of identifying the scams against seniors. I am outraged that hard working people who want to comply are now being terrified.

My question to you, Mr. Commissioner, I took action, turned to proper law enforcement, to the Attorney General for the State of Maryland, all those things, what would you advise the taxpayers that if they get this kind of scheme, scum effort to actually defraud them, what would you recommend, what action would they take?

While we are working on big budget, we have to remember the little people. What tips and news could you give today on how to help them?

ADDRESSING SCAMS

Mr. KOSKINEN. For the last 2 years since I have been Commissioner, we have tried to warn taxpayers across the country. We put out a list of what we call the "Dirty Dozen" at the start of each filing season, and at the top of that list is phone scams.

We are trying to warn people and to tell them, (a) if you are surprised to be hearing from us, you are probably not hearing from us, and (b) we never threaten you. If somebody threatens you, take the number, let the Federal Trade Commission and law enforcement know. Let the Inspector General know. The Inspector General, with whom we work closely, has done a wonderful job of tracking and moving forward toward prosecution of people when we can find them, and disrupting those systems. It has been an important partnership we have with them.

It is a low cost of entry crime. All they need is a set of phone numbers and they just robo-dial them as much as they can, and they can mask the calls so it looks like it is coming from Washington where the IRS headquarters are.

I got one of those. I said, "well, I bet I can talk to somebody at the IRS about this." We tracked it down. It came from Pakistan. In fact, a number of these calls are obviously generated from abroad. When you arrest someone who is collecting the money, a lot of time they are mules, as known in the trade.

Senator MIKULSKI. Mr. Commissioner, right now there are people watching this on CSPAN, and then the use of media, and social media, as we are coming to know it, how can we communicate, take no action, but if you get this kind of call, who do you turn that into?

Mr. KOSKINEN. Turn that in for action. You can go to our Web site link called "The Inspector General." Call the Federal Trade Commission. Call your local law enforcement. Most importantly, the IRS will never have you make a payment to a bank account or a debit card. The IRS will have you make a payment to the United States Treasury. If somebody wants money for some place else, do not send it.

TELEPHONE LEVEL OF SERVICE

Senator MIKULSKI. Now, this also goes to the ability to answer your phone. The phone is often left unanswered. I know that since 2011, you have really had 6 years of consecutive annual budget cuts because of the Congress.

How would you characterize the funding request to deal with customer service, presuming most people want to comply, most people have legitimate questions, some people are just scared because they get these calls, or some are people who are just starting a business for the first time, do you feel the request that you have submitted this year would begin to deal with this? Sixty-two percent of the calls were unanswered in 2015.

Mr. KOSKINEN. Yes. Actually, we already can see the impact of having additional people to help us deal with taxpayers. We have lost over 3,000 call center representatives over the last 5 years. If you do not have people, they are not going to be able to answer the phone.

This year, thanks to the funding from the Congress, we have been able to add 1,000 people. Our level of service, we think, is going to go up during the filing season into the mid-60 percent as opposed to the low 40 percent. It will still be low for the year because for the first 3 months, we did not have the money. We do think even with that, the level for the year will be 47 to 50 percent as opposed to 37 percent.

If the President's budget is funded in these categories, for both user fees and the regular funding, we think we could get to a level next year, for the entire year, at 70 percent. Our goal would be to go back to where we were in the mid-2000s, where our level of service was 80 percent and the waiting time was less than 3 minutes. In other words, everyone ought to be able to call the IRS, get an immediate answer, get someone who is trained to answer their question.

We are moving in that direction thanks to the additional funding, but it is a simple equation. If we have additional resources, we will hire the people who will be able to answer the calls.

Senator MIKULSKI. Thank you very much. Thank you, Mr. Chairman.

Senator BOOZMAN. Thank you, and thank you for really pursuing that line of questions regarding the scams that are going on. I do not think we can emphasize that too much, sadly.

Senator MIKULSKI. Mr. Chairman, I will bring to your attention and Senator Coons the Collins-McCaskill report that they put out, they did it like desktop publishing, they did not go to 15 printers and all of that. It is actually news that you can use with your own constituents.

That is what they want. People want information that they can use to protect themselves or turn in the bad guys.

Senator BOOZMAN. Right. Thank you very much. Thank you, Mr. Commissioner, for being here. We appreciate your testimony very, very much.

Mr. KOSKINEN. Thank you, Mr. Chairman. Again, thank you. We do appreciate the additional funding we got this year and hope to

have a discussion with you about what we will do with the additional funding next year.

Senator BOOZMAN. As always, certainly if members have questions, they will submit those for the record, and we would appreciate your response.

Mr. KOSKINEN. That would be fine. Thank you.

Senator BOOZMAN. Thank you, Inspector General, for being here. We appreciate it. I know you have been a little bit under the weather, and above and beyond the call of duty. I would appreciate it if in your opening remarks you could hold those to 5 minutes. Thank you.

TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY

STATEMENT OF HON. J. RUSSELL GEORGE, INSPECTOR GENERAL

Mr. GEORGE. Very good. Chairman Boozman, Ranking Member Coons, members of the subcommittee, thank you for the opportunity to appear today.

My testimony addresses the IRS' fiscal year 2017 budget request, our recent work related to the most significant challenges currently facing the IRS, and the fiscal year 2017 budget request for TIGTA.

I would like to begin with a brief discussion of significant challenges facing the IRS, starting with the topic of providing quality customer service. Many taxpayers use the telephone to contact the IRS. IRS cuts in service have resulted in long wait times, abandoned calls, and taxpayers redialing the IRS toll-free telephone lines for service.

As a result of increased customer service funding in fiscal year 2016, the IRS is forecasting for this filing season a 65 percent level of service, which is the relative success rate of taxpayers who call for live assistance. This is a positive development. This would be an increase, as you heard before, from the 38 percent level of service for last year.

However, the IRS also estimates that the number of taxpayers assisted at its walk-in offices, known as taxpayer assistance centers, will again decline this fiscal year. The IRS reported that it assisted more than 5.6 million taxpayers in fiscal year 2015, but plans to assist 7 percent fewer taxpayers this year.

Tax-related identity theft is a major challenge confronting the IRS. Since 2012, TIGTA has issued a series of reports assessing the IRS' efforts to detect and prevent fraudulent tax refunds resulting from identity theft, and made recommendations to improve the IRS' processes.

However, improvements are still needed. For the 2014 filing season, the IRS reported that identity thieves were successful in receiving approximately \$3 billion in fraudulent tax refunds.

The IRS is also challenged by other threats to tax administration. As has been discussed, based on TIGTA's review of the Get Transcript breach, the IRS recently reported that there were an additional 390,000 suspicious accesses to taxpayer accounts as well as

295,000 unsuccessful attempts to access taxpayer accounts that were not previously identified by the IRS.

Moreover, many of these accounts have information for spouses and dependents. We are concerned that tax information obtained through this data breach could be used to commit identity theft in the future.

In addition, TIGTA continues to investigate the telephone impersonation scam in which approximately one million intended victims have received unsolicited telephone calls from criminals claiming to be IRS agents. Over 5,400 of these individuals have reported to TIGTA that they have been victimized by this scam by paying close to \$29 million.

Implementation of the Affordable Care Act also has presented challenges for the IRS. For example, TIGTA reported that the IRS did not receive information during the 2015 filing season needed to enable it to verify that individuals who claimed the premium tax credit purchased insurance through an exchange.

We are in the process of evaluating the IRS' verification of premium tax credit claims during this year's filing season.

The tax gap is also a continuing challenge. In fiscal year 2015, the IRS reported that it collected more than \$54 billion in enforcement revenue, a 9 percent decrease from fiscal year 2014. IRS enforcement activity has decreased due to budgetary constraints. These compliance trends are a continuous cause for concern, especially given diminished enforcement could affect voluntary compliance over time.

TIGTA's fiscal year proposed budget requests resources of \$170 million, an increase of 1.4 percent compared to fiscal year 2016. This would enable us to oversee the implementation by the IRS of the Affordable Care Act, look more into the identity theft issue, and international tax compliance.

In addition, we will continue investigating allegations of serious misconduct and criminal activity by IRS employees, ensuring that the employees are safe and the data and facilities that the IRS uses are not impeded by threats of violence.

Protecting the IRS against external attempts to corrupt or interfere with tax administration is a primary concern of TIGTA.

Mr. Chairman, Ranking Member Coons, members of the subcommittee, thank you for the opportunity to testify.

[The statement follows:]

PREPARED STATEMENT OF HON. J. RUSSELL GEORGE

Chairman Boozman, Ranking Member Coons, and members of the subcommittee, thank you for the opportunity to testify on the Internal Revenue Service's (IRS) fiscal year¹ 2017 budget request, our recent work related to the most significant challenges currently facing the IRS, and the Treasury Inspector General for Tax Administration's (TIGTA) fiscal year 2017 budget request.

TIGTA is statutorily mandated to provide independent audit and investigative services necessary to improve the economy, efficiency, and effectiveness of IRS operations, including the oversight of the IRS Chief Counsel. TIGTA's oversight activities are designed to identify high-risk systemic inefficiencies in IRS operations and to investigate exploited weaknesses in tax administration. TIGTA's role is critical in that we provide the American taxpayer with assurance that the approximately

¹ The Federal Government's fiscal year begins on October 1 and ends on September 30.

86,000 IRS employees² who collected over \$3.3 trillion in tax revenue, processed over 244 million tax returns, and issued more than \$400 billion in tax refunds during fiscal year 2015,³ have done so in an effective and efficient manner while minimizing the risks of waste, fraud, or abuse.

TIGTA's Office of Audit (OA) reviews all aspects of the Federal tax administration system and provides recommendations to: improve IRS systems and operations; ensure the fair and equitable treatment of taxpayers; and detect and prevent waste, fraud, and abuse in tax administration. The OA places an emphasis on statutory coverage required by the IRS Restructuring and Reform Act of 1998 (RRA 98)⁴ and other laws, as well as on areas of concern raised by Congress, the Secretary of the Treasury, the Commissioner of Internal Revenue, and other key stakeholders. The OA has examined specific high-risk issues such as identity theft, refund fraud, improper payments, information technology, security vulnerabilities, complex modernized computer systems, tax collections and revenue, and waste and abuse in IRS operations.

TIGTA's Office of Investigations (OI) protects the integrity of the IRS by investigating allegations of IRS employee misconduct, external threats to IRS employees and facilities, and other attempts to impede or otherwise interfere with the IRS's ability to collect taxes. Since the summer of 2013, a significant part of the OI's workload has consisted of investigating a telephone impersonation scam in which approximately one million intended victims have received unsolicited telephone calls from criminals claiming to be IRS agents. The callers demand money under the guise of a tax liability from the victim. To date, over 5,400 victims have paid close to \$29 million to these criminals. In addition, the OI investigates misconduct by IRS employees which manifests itself in many ways, including extortion, theft, taxpayer abuses, false statements, financial fraud, and identity theft. The Office of Investigations places a high priority on its statutory responsibility to protect all IRS employees located in over 670 facilities nationwide. In the last several years, threats directed at the IRS have remained the second largest component of the OI's work. Physical violence, harassment, and intimidation of IRS employees continue to pose challenges to the implementation of a fair and effective system of tax administration. The Office of Investigations is committed to ensuring the safety of IRS employees and the taxpayers who conduct business in IRS facilities.

TIGTA's Office of Inspections and Evaluations (I&E) provides responsive, timely, and cost-effective inspections and evaluations of challenging areas within the IRS, providing TIGTA with additional flexibility and capability to produce value-added products and services to improve tax administration. The I&E's work is not a substitute for audits and investigations. In fact, its findings may result in subsequent audits and/or investigations. Inspections are intended to monitor compliance with applicable law, regulation, and/or policy; assess the effectiveness and efficiency of programs and operations; and inquire into allegations of waste, fraud, abuse, and mismanagement. Evaluations, on the other hand, are intended to provide in-depth reviews of specific management issues, policies, or programs. In the last year, the I&E has reviewed the IRS's process for disclosing taxpayers' Personally Identifiable Information and related tax information; performed an inspection of Taxpayer Assistance Centers; and reviewed requests for adaptive technology made by IRS employees with disabilities.

OVERVIEW OF THE IRS'S FISCAL YEAR 2017 BUDGET REQUEST

The IRS is the largest component of the Department of the Treasury and has primary responsibility for administering the Federal tax system. The IRS's Strategic Plan guides program and budget decisions. In addition, the IRS has established a new investment process and created six strategic themes to guide its investment strategy and resource allocation. The IRS believes these themes align with existing Strategic Goals and Objectives and clearly articulate the strategic outcomes which the IRS seeks to achieve. The IRS's role is unique within the Federal Government in that it collects the revenue that funds the Government and administers the Nation's tax laws. It also works to protect Federal revenue by detecting and preventing the growing risk of fraudulent tax refunds and other improper payments.

²Total IRS staffing as of October 3, 2015. Included in the total are approximately 15,400 seasonal and part-time employees.

³IRS, *Management's Discussion & Analysis, fiscal year 2015*.

⁴Public Law No. 105-206, 112 Stat. 685 (1998) (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

To achieve these goals, the proposed fiscal year 2017 IRS budget requests appropriated resources of approximately \$12.3 billion.⁵ The total appropriations amount is an increase of slightly more than \$1 billion, or approximately 9.3 percent more than the fiscal year 2016 enacted level of approximately \$11.2 billion. A comparison of next year's request with the current budget is shown in Table 1. The budget request includes a net staffing increase of 3,231 full-time equivalents (FTE)⁶ for a total of approximately 84,803 appropriated FTEs.

TABLE 1—IRS FISCAL YEAR 2017 BUDGET REQUEST INCREASE OVER FISCAL YEAR 2016
ENACTED BUDGET
[In thousands]

Appropriations account	Fiscal year 2016 enacted	Fiscal year 2017 request	\$ Change	% Change
Taxpayer Services	2,333,376	2,406,318	72,942	3.1
Enforcement	4,864,936	5,216,263	351,327	7.2
Operations Support	3,746,688	4,314,099	567,411	15.1
Business Systems Modernization	290,000	343,415	53,415	18.4
Total Appropriated Resources	11,235,000	12,280,095	1,045,095	9.3

Source: Treasury Inspector General for Tax Administration's analysis of the IRS's Fiscal Year 2017 Budget Request, Operating Level Tables.

The three largest appropriation accounts are Taxpayer Services, Enforcement, and Operations Support. The Taxpayer Services account provides funding for programs that focus on helping taxpayers understand and meet their tax obligations, while the Enforcement account supports the IRS's examination and collection efforts. The Operations Support account provides funding for functions that are essential to the overall operation of the IRS, such as infrastructure and information services. Finally, the Business Systems Modernization account provides funding for the development of new tax administration systems and investments in electronic filing.

As shown above, the Operations Support appropriation request for fiscal year 2017 has the highest increase at over \$567 million (328 FTEs) compared to fiscal year 2016. The two largest components of this increase are \$153 million to implement changes to deliver tax credits and other requirements for the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010⁷ (collectively referred to as the Affordable Care Act or ACA) and \$92 million for the operations and maintenance on deployed Business Systems Modernization projects.

KEY CHALLENGES FACING THE IRS

In this section of my testimony, I will discuss several of the most significant challenges now facing the IRS as it administers our Nation's tax laws.

TAXPAYER SERVICE

TIGTA continues to review the IRS's efforts to provide quality customer service and recommend areas of improvement. Although the IRS has implemented recommendations to better assist the American taxpayer, significant challenges remain. The IRS has made cuts in its traditional services, which has significantly affected a number of areas.

First, for the IRS toll-free lines,⁸ there have been long customer wait times, resulting in abandoned calls, and customers redialing. Despite other available options, most taxpayers continue to use the telephone as the primary method to contact the IRS. For the 2015 Filing Season, as of May 2, 2015, the IRS reported that there were approximately 83.2 million attempts to contact the IRS by calling the various customer service toll-free telephone assistance lines. Assistors answered approxi-

⁵ The fiscal year 2017 budget request also includes approximately \$141 million from reimbursable programs, \$45 million from non-reimbursable programs, \$400 million from user fees, \$385 million in available unobligated funds from prior years, and a transfer of \$5 million to another agency for a total amount of \$13.2 billion in available resources.

⁶ A measure of labor hours in which one FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year.

⁷ Public Law No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of the Internal Revenue Code and 42 U.S.C.), as amended by the Health Care and Education Reconciliation Act of 2010, Public Law No. 111-152, 124 Stat. 1029.

⁸ The IRS refers to the suite of 29 telephone lines to which taxpayers can make calls as "Customer Account Services Toll-Free."

mately 8.3 million calls and provided a 37.6 percent Level of Service⁹ with a 23.5 minute Average Speed of Answer.¹⁰ It should be noted that the reported Level of Service for the 2014 Filing Season was 70.8 percent.

For the 2016 Filing Season, as of February 27, 2016, the IRS reports that approximately 40.5 million attempts were made to contact the IRS via its toll-free assistance lines. Assistors have answered approximately 6.3 million calls and have achieved a 72.9 percent Level of Service with a 9.6 minute Average Speed of Answer. As a result of the IRS receiving additional funding for customer service in fiscal year 2016, the IRS is forecasting a 65 percent Level of Service for the 2016 Filing Season, which is an increase from the 38 percent originally forecasted. Overall, the IRS is forecasting a 47 percent Level of Service for the full fiscal year, which is an increase from its original forecast of 34 percent. We are currently assessing the IRS's process for allocating its Customer Service budget.

Second, the IRS's ability to process taxpayer correspondence in a timely manner continues to decline. The reported over-age correspondence inventory has steadily increased from 40 percent in fiscal year 2012 to 49 percent in fiscal year 2015. IRS management indicated that it has been necessary to focus its limited resources on maximizing taxpayer assistance on the toll-free telephone lines during the filing season while concentrating any remaining resources toward various priority programs such as identity theft and aged work.¹¹ In February 2016, we reported that although the IRS has taken action to improve its working of correspondence inventory, managers continue to not effectively use over-age reports to monitor and reduce inventory.¹²

Third, the IRS estimates the number of taxpayers assisted by Taxpayer Assistance Centers (TAC) will again decline this fiscal year. The IRS reported that it assisted more than 5.6 million taxpayers in fiscal year 2015, which was a nearly 4 percent decrease from the prior year. For fiscal year 2016, the IRS plans to assist approximately 5.2 million taxpayers, which is 7 percent fewer than in fiscal year 2015. The IRS indicated that its strategy of not offering services at TACs that can be obtained through other service channels, such as the IRS's Web site, are the reasons that the IRS plans to assist fewer taxpayers at the TACs.

In July 2014, we reported that although the IRS stated that the TAC services eliminated or reduced were, in part, the result of the IRS's anticipated budget cuts, the IRS's plans did not show the extent to which the service cuts would lower the costs and the FTEs at the TACs. In fact, the FTEs allocated to TACs in fiscal year 2014 were not substantially reduced. Furthermore, prior to making the service cuts, the IRS did not evaluate the burden each service elimination or reduction would have on taxpayers who seek assistance at the TACs.

Another challenge facing the IRS is meeting taxpayers' expectations for expanded online account access. The IRS's eventual goal is to provide taxpayers with dynamic online account access that includes viewing their recent payments, making minor changes and adjustments to their accounts, and corresponding digitally with the IRS. In a May 2015,¹³ we reported that the IRS is depending even more heavily on technology-based services and external partners. The IRS continues to expand the information and tools to provide self-assistance through IRS.gov and various social media channels (*e.g.*, Twitter, Facebook, and YouTube).

However, key information technology projects needed to provide these online options ultimately cannot be completed until the IRS allocates sufficient resources to them. The projects need to be completed to enable taxpayers to accurately authenticate their identities online, view their accounts, and communicate with the IRS using secure electronic messages. We reported that without additional funding for key information technology projects, the IRS will continue to miss opportunities to fully benefit from the cost savings and improved customer service, including reducing the reliance on traditional service channels such as telephones, paper correspondence, and face-to-face contact.

⁹The primary measure of service to taxpayers. It is the relative success rate of taxpayers who call for live assistance on the IRS's toll-free telephone lines.

¹⁰The average amount of time for an assistor to answer the call after the call is routed to a call center.

¹¹TIGTA, Ref. No. 2014-40-029, *Interim Results of the 2014 Filing Season* (Mar. 2014).

¹²TIGTA, Ref. No. 2016-40-023, *Continued Inconsistent Use of Over-age Correspondence Lists Contributes to Taxpayer Burden and Unnecessary Interest Payments* (Feb. 2016).

¹³TIGTA, Ref. No. 2015-40-053, *Taxpayer Online Account Access Is Contingent On the Completion of Key Information Technology Projects* (May 2015).

IDENTITY THEFT AND TAX REFUND FRAUD

Tax-related identity theft is a major challenge still facing the IRS. Since 2012, TIGTA has issued a series of reports assessing the IRS's efforts to detect and prevent fraudulent tax refunds resulting from identity theft. In July 2012, we reported that the impact of identity theft on tax administration is significantly greater than the amount the IRS detects and prevents. Our analysis of tax year 2010 tax returns identified approximately 1.5 million undetected tax returns with potentially fraudulent tax refunds totaling in excess of \$5.2 billion that had the characteristics of identity theft confirmed by the IRS.¹⁴

We have continued to perform follow-up reviews evaluating the IRS's efforts to improve detection processes, including its implementation of TIGTA recommendations. In April 2015, we reported that the IRS continues to make improvements in its identification of identity theft tax returns before fraudulent tax refunds are released.¹⁵ In response to our reporting that the IRS did not have a process to measure the impact of identity theft, the IRS initiated a research project in calendar year 2012 to develop a measurement process to assess its efforts to defend against identity theft as well as identify areas requiring additional effort. For the 2014 Filing Season, the IRS reported that identity thieves were successful in receiving approximately \$3.1 billion in fraudulent tax refunds. TIGTA is evaluating the accuracy of the IRS's measurement and expects to issue its report early next fiscal year.

The IRS has implemented many of TIGTA's recommendations, and has continued in its efforts to improve its detection processes. In the 2014 Filing Season, the IRS reported that it detected and prevented approximately \$21.5 billion in identity theft refund fraud.

The IRS is locking the tax accounts of deceased individuals to prevent others from filing a tax return using their names and Social Security Numbers (SSN). The IRS locked approximately 30.2 million taxpayer accounts between January 2011 and December 31, 2015. For processing year 2015, the IRS rejected approximately 77,000 fraudulent e-filed tax returns and prevented about 16,000 paper-filed tax returns through the use of these locks as of April 30, 2015.

The IRS also continues to expand the number of filters used to detect identity theft refund fraud at the time tax returns are processed. Those filters increased from 11 filters for the 2012 Filing Season to 183 filters for the 2016 Filing Season. Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity. As of December 31, 2015, the IRS reported that it identified and confirmed more than one million fraudulent tax returns and prevented the issuance of nearly \$6.8 billion in fraudulent tax refunds as a result of the identity theft filters.

After TIGTA continued to identify large volumes of undetected potentially fraudulent tax returns with tax refunds issued to the same address or deposited into the same bank account, the IRS developed and implemented a clustering filter tool during the 2013 Filing Season. This tool groups tax returns based on characteristics that include address and bank routing numbers. Tax returns identified are held from processing until the IRS can verify the taxpayer's identity. As of December 31, 2015, the IRS reported that, using this tool, it identified 835,183 tax returns claiming approximately \$4.3 billion in potentially fraudulent tax refunds.

A new process, also implemented during the 2015 Filing Season, limits the number of direct deposit refunds that can be sent to a single bank account to three deposits. The IRS converts the fourth and subsequent direct deposit refund requests to a specific bank account to a paper refund check and mails the check to the taxpayer's address of record. In August 2015, we reported that programming errors resulted in some direct deposit refunds not converting to a paper check as required.¹⁶

In December 2015, Congress passed legislation that addresses TIGTA's ongoing concern about limitations in the IRS's ability to prevent the continued issuance of billions of dollars in fraudulent tax refunds. We reported that the IRS did not have timely access to third-party income and withholding information needed to make substantial improvements in its fraud detection efforts. The recently enacted legislation now requires the annual filing of income and withholding information by January 31, beginning in 2017.¹⁷ Access to this information at the beginning of the filing season is the single most important tool to detect and prevent tax fraud-related identity theft. TIGTA will be reviewing the IRS's use of the income and withholding

¹⁴TIGTA, Ref. No. 2012-42-080, *There Are Billions of Dollars in Undetected Tax Refund Fraud Resulting From Identity Theft* (July 2012).

¹⁵TIGTA, Ref. No. 2015-40-026, *Efforts Are Resulting in the Improved Identification of Fraudulent Tax Returns Involving Identity Theft* (Apr. 2015).

¹⁶TIGTA, Ref. No. 2015-40-080, *Results of the 2015 Filing Season* (Aug. 2015).

¹⁷Public Law No. 114-113, *Consolidated Appropriations Act, 2016*.

information returns as part of its fiscal year 2017 assessment of efforts to detect and prevent identity theft.

Identity theft also affects businesses. In September 2015, TIGTA determined that processing filters could be developed to identify business tax returns containing certain characteristics that could indicate potential identity theft cases.¹⁸ TIGTA also reported that State information sharing agreements do not address business identity theft and that actions are needed to better promote awareness of business identity theft. The IRS agreed with our recommendations.

In order to continue to improve its detection efforts, the IRS needs expanded capabilities in its fraud detection system. The IRS's current fraud detection system does not allow the IRS to change or adjust identification filters throughout the processing year. The IRS is developing and testing a replacement fraud detection system, called the Return Review Program (RRP), which the IRS believes will provide new and improved capabilities that advance its fraud detection and prevention to a higher level.

The IRS conducted a pilot test of the RRP scoring and models during Processing Year 2014 to assess its effectiveness in identifying potential identity theft tax returns. In December 2015, TIGTA reported that although the pilot successfully identified tax returns involving identity theft that were not identified by the IRS's other fraud detection systems, it did not detect all the fraudulent tax returns identified by its existing fraud detection systems.¹⁹

IRS Assistance to Victims of Identity Theft

TIGTA has identified continuing issues with victim assistance. In September 2013, TIGTA reported that, on average, it took the IRS 312 days to resolve tax accounts of identity theft victims due a refund in fiscal year 2012.²⁰ In March 2015, we reported that taxpayers were still experiencing long delays in resolving their tax accounts and that the IRS continues to make errors on the victims' tax accounts.²¹ Our review of a statistically valid sample of 100 identity theft tax accounts resolved by the IRS during fiscal year 2013 identified that the IRS took an average of 278 days to resolve the tax accounts and did not correctly resolve 17 of the 100 accounts (17 percent) we reviewed. We estimate that of the 267,692 taxpayer cases resolved during this period, 25,565 (10 percent) may have been resolved incorrectly resulting in delayed or incorrect refunds and requiring the IRS to reopen cases to resolve the errors.

On May 4, 2015, the IRS announced the final phase of its plan to consolidate its identity theft assistance and compliance activities into a new organization called the Identity Theft Victim Assistance Directorate. The IRS indicated that this new directorate aims to provide consistent treatment to victims of tax-related identity theft. We plan to review the IRS's implementation of this organization as part of our fiscal year 2016 audit coverage.

Employment-Related Identity Theft

Individuals can also learn that they are victims of employment-related identity theft if they receive a notification from the IRS of an income discrepancy between the amounts reported on his or her tax return to the amount employers reported to the IRS. This can occur when an innocent taxpayer's stolen identity is used to gain employment. It can cause significant burden due to the incorrect computation of taxes and Social Security benefits based on income that does not belong to the taxpayer.

In response to a TIGTA recommendation, the IRS initiated the Employment Related Identity Theft Notification Project in 2014 to notify a test group of taxpayers that their SSNs have been used by another person for the purpose of employment. The IRS mailed approximately 25,000 letters to potential victims whose SSNs had been used on a Form W-2 accompanying a tax year 2013 tax return filed by another individual with an Individual Taxpayer Identification Number (ITIN).²² The letters also described steps the taxpayers could take to prevent further misuse of their personal information, including reviewing their earnings with the Social Security Administration (SSA) to ensure their records are correct. However, the IRS completed

¹⁸TIGTA, Ref. No. 2015-40-082, *Processes Are Being Established to Detect Business Identity Theft; However, Additional Actions Can Help Improve Detection* (Sept. 2015).

¹⁹TIGTA, Ref. No. 2016-40-008, *Continued Refinement of the Return Review Program Identity Theft Detection Models Is Needed to Increase Detection* (Dec. 2015).

²⁰TIGTA, Ref. No. 2013-40-129, *Case Processing Delays and Tax Account Errors Increased Hardship for Victims of Identity Theft* (Sept. 2013).

²¹TIGTA, Ref. No. 2015-40-024, *Victims of Identity Theft Continue to Experience Delays and Errors in Receiving Refunds* (Mar. 2015).

²²The IRS created the ITIN to provide Taxpayer Identification Numbers, when needed for tax purposes, to individuals who do not have and are not eligible to obtain an SSN.

the pilot in fiscal year 2014 and did not continue issuing the notification letters to taxpayers. TIGTA is currently evaluating this pilot initiative and expects to issue its report in March 2016.²³

IRS “GET TRANSCRIPT” DATA BREACH

On May 26, 2015, the IRS announced that unauthorized access attempts were made by individuals using taxpayer-specific data to gain access to tax information through its “Get Transcript” application. According to the IRS, one or more individuals succeeded in clearing the IRS’s authentication process that required knowledge of information about the taxpayer, including Social Security information, date of birth, tax filing status, and street address.

The tax information that can be accessed on the Get Transcript application can include the current and three prior years of tax returns, 9 years of tax account information, and wage and income information. The unauthorized accesses resulted in the IRS removing the application from its Web site. In August 2015, the IRS indicated that unauthorized users were successful²⁴ in obtaining access to information for over 340,000 taxpayer accounts. However, TIGTA’s current review²⁵ of the Get Transcript breach identified additional suspicious accesses to taxpayers’ accounts. Based on TIGTA’s analysis of Get Transcript access logs, the IRS reported on February 26, 2016 that potentially unauthorized users were successful in obtaining access to an additional 390,000 taxpayer accounts. The IRS also reported that an additional 295,000 taxpayer transcripts were targeted but the access attempts were not successful. The IRS did not previously identify these accesses because of limitations in the scope of its analysis, including its method of identifying suspicious email accounts as well as the timeframe it analyzed.

In response to TIGTA’s identification of the additional accesses, the IRS is mailing notification letters to these taxpayers and placing identity theft markers on their tax accounts, which started February 29, 2016. It should be noted that the actual number of individuals whose personal information was available to the potentially unauthorized individuals accessing these tax accounts is significantly larger in that these tax accounts include certain information on other individuals listed on a tax return (e.g., spouses and dependents). TIGTA plans to issue its report in March 2016.

In a report issued in November 2015, TIGTA found that when the IRS assessed the risk of the Get Transcript application, it rated the authentication risk associated with Get Transcript as low to both the IRS and taxpayers.²⁶ As a result, the IRS implemented single-factor authentication to access the Get Transcript application. The IRS now knows that the authentication risk was in fact high to both the IRS and taxpayers and should have required multifactor authentication. We also reported that the IRS did not complete the required authentication risk assessment of the issues Identity Protection Personal Identification Number (IP PIN)²⁷ application. The IRS does not anticipate having the technology in place for either the Get Transcript or IP PIN application to provide multifactor authentication capability before the summer of 2016.

TIGTA is participating in a multi-agency investigation into this matter and we have provided the IRS with some of our investigative observations to date in order to help them secure the e-authentication environment in the future.

TELEPHONE IMPERSONATION SCAM

As noted earlier in my testimony, the telephone impersonation scam has proven to be so large that it continues to be one of my agency’s top priorities, and it has also landed at the top of the IRS’s “Dirty Dozen” tax scams. The number of complaints we have received about this scam continue to climb, cementing its status as

²³TIGTA, Audit No. 201540015, *Assistance to Taxpayers Affected by Employment-Related Identity Theft*, report planned for March 2016.

²⁴A successful access is one in which the unauthorized users successfully answered identity proofing and knowledge-based authentication questions required to gain access to taxpayer account information.

²⁵TIGTA, Audit No. 201540027, *Evaluation of Assistance Provided to Victims of the Get Transcript Data Breach*, report planned for March 2016.

²⁶TIGTA, Ref. No. 2016-40-007, *Improved Tax Return Filing and Tax Account Access Authentication Processes and Procedures Are Needed* (Nov. 2015).

²⁷To provide relief to tax-related identity theft victims, the IRS issues IP PINs to taxpayers who are confirmed by the IRS as victims of identity theft, taxpayers who are at a high risk of becoming a victim such as taxpayers who call reporting a lost or stolen wallet or purse, as well as taxpayers who live in three locations that the IRS has identified as having a high rate of identity theft (Florida, Georgia and the District of Columbia).

the largest, most pervasive impersonation scam in the history of our agency. It has claimed thousands of victims, including victims in every State represented on this committee, with reported losses totaling close to \$29 million to date.

We started receiving reports of this particular phone scam in August 2013. As the reporting continued through the fall, we started to specifically track this crime in October 2013. TIGTA currently receives between 10,000 and 14,000 reports of these calls each week. To date, TIGTA has received more than one million reports of these calls. As of February 22, 2016, over 5,400 individuals have reported to TIGTA they have been victimized by this scam by paying close to \$29 million, averaging over \$5,300 per victim. The highest reported loss by one individual was over \$500,000. In addition, over 1,275 of these victims reported that they also provided sensitive identity information to these scammers.

Here is how it works: The intended victim receives an unsolicited telephone call from a live person or from an automated call dialer. The caller, using a fake name and sometimes a fictitious employee badge number, claims to be an IRS agent. The scammers use Voice over Internet Protocol technology to hide their tracks and create false telephone numbers that show up on the victim's caller ID system. For example, the criminals may make it appear as though the calls are originating from Washington, DC, or elsewhere in the United States.

The callers may even know the last four digits of the victim's SSN or other personal information about the victim. The caller claims that the intended victim owes the IRS taxes and that if not paid immediately, the victim will be arrested or charged in a lawsuit. Other threats for non-payment include the loss of a driver's license, deportation, or loss of a business license. They often leave "urgent" messages to return telephone calls and they often call the victim multiple times.

According to the victims we have interviewed, the scam artists made the threatening statements as described above, and then demanded that the victims immediately pay the money using prepaid debit cards, wire transfers, Western Union payments or MoneyGram payments in order to avoid being immediately arrested. The callers typically warn the victims that if they hang up, local police would come to their homes to arrest them immediately. Sometimes the scammers also sent bogus IRS e-mails to support their claim that they worked for the IRS. By the time the victims realized they had been scammed, the funds were long gone.

Over time, the scam has evolved from live callers demanding payment using prepaid debit cards to scammers using automated call dialers, or "robo-dialers," to place thousands of calls very rapidly. When the intended victim answers the phone, the automated voice states that the victim owes the IRS taxes. The victim is informed that if they do not immediately call a telephone number provided in the message, they will face arrest and possibly a lawsuit.

TIGTA has made several arrests in connection with this scam and has numerous investigations underway. While we cannot provide specific details of ongoing investigations out of concern that it will hinder our ability to prosecute those responsible, we can describe for you some of the steps TIGTA is taking to combat this scam.

To thwart scammers using robo-dialers, we have created and instituted an "Advise and Disrupt" strategy. The strategy involves cataloguing the telephone numbers that were reported by intended victims. We then use our own automated call dialers to make calls to those telephone numbers to advise the scammers that their activity is criminal and to cease and desist in their activity. As of February 24, 2016, we have placed over 48,000 automated calls back to the criminals.

Also, we are working with the telephone companies to have the scammers' telephone numbers shut down as soon as possible. Of the 541 telephone numbers that have been reported by victims, we have successfully shut down over 77 percent of them.

TIGTA is also publishing those telephone numbers determined to have been used by the scammers on the Internet. This provides intended victims an additional tool to help them determine if the call is part of a scam. All they have to do is type the telephone number in any search engine, and the response will indicate whether the telephone number has been identified as part of the impersonation scam. These efforts are producing results: our data show it now takes hundreds of calls to yield one victim, whereas in the beginning of the scam it took only double digit attempts.

In addition, TIGTA is engaged in a public outreach effort to educate taxpayers about the scam. This effort includes issuing press releases, granting interviews, issuing public service announcements, and providing testimony to the Congress. The criminals view this scam as they do many others; it is a crime of opportunity. Unfortunately, while we plan on arresting and prosecuting more individuals, the scam will not stop until people stop paying the scammers money. Our best chance at defeating this crime is to educate people so they do not become victims in the first place. Every innocent taxpayer we protect from this crime is a victory.

IMPLEMENTATION OF THE AFFORDABLE CARE ACT

The ACA provides incentives and tax breaks to individuals and small businesses to offset healthcare expenses, and impose penalties for individuals and businesses that do not obtain healthcare coverage for themselves or their employees. Implementation of these provisions will continue to present numerous challenges for the IRS in the 2016 Filing Season. For example, the IRS will continue its efforts to verify claims for the Premium Tax Credit (PTC).²⁸ Taxpayers who purchase insurance through an Exchange²⁹ are required to file a tax return and attach Form 8962, *Premium Tax Credit (PTC)*, to claim the PTC and reconcile any Advance PTC payments (APTC)³⁰ that were made to an insurer on their behalf. For the 2015 Filing Season, as of June 11, 2015, the IRS reported that it processed more than 2.9 million tax returns in which taxpayers received approximately \$9.8 billion in PTCs that were either received in advance or claimed at the time of filing.

In a draft report issued to the IRS in February 2016,³¹ TIGTA reported that its evaluation of the IRS's verification of PTC claims during the 2015 Filing Season identified that not all Exchanges provided monthly Exchange Periodic Data (EPD)³² to the IRS prior to the start of the 2015 Filing Season as required. Without the required EPD, the IRS is unable to ensure that individuals claiming the PTC met the most important eligibility requirement—insurance was purchased through an Exchange. The IRS also cannot effectively and efficiently prevent erroneous PTC payments or ensure that the APTC paid in error is recovered.

Because it did not receive all required EPD data, the IRS developed manual processes in an effort to verify PTC claims associated with these Exchanges. However, to carry out these processes, the IRS has to suspend these tax returns during processing, which uses additional IRS resources and increases the burden on taxpayers entitled to these claims. We are evaluating the effectiveness of the IRS's verification of PTC claims during the 2016 Filing Season, including an assessment of the IRS's receipt of required EPD and Forms 1095-A, *Health Insurance Marketplace Statement*, from the Federal and State Exchanges.

In the 2016 Filing Season, the IRS must implement processes and procedures to ensure taxpayer compliance with Minimum Essential Coverage (MEC)³³ and Shared Responsibility Payment (SRP) requirements. In March 2015, we reported that the IRS had not developed these processes and procedures during the 2015 Filing Season.³⁴ Taxpayers, and any individual the taxpayer could claim as a dependent for Federal income tax purposes, who did not maintain MEC must either be exempted from the requirement or pay a penalty (referred to as the SRP) for each month during which MEC was not maintained. We are currently evaluating the IRS's efforts to verify taxpayers' compliance with MEC and SRP requirements.

Finally, the IRS will also have to implement processes and procedures to ensure employer compliance with ACA provisions. For example, the Employer Shared Responsibility Provision applies to employers that had an average of 50 or more full-time employees during the prior calendar year. The ACA requires these employers to report to the IRS whether they offered full-time employees and their dependents the opportunity to enroll in coverage. This reporting requirement was delayed from calendar year 2015 to 2016.

Employers that do not offer health insurance coverage, or offer health insurance coverage that does not meet minimum requirements, may be subject to an Employer Shared Responsibility Provision when at least one of their full-time employees receives a PTC to purchase coverage through an Exchange. TIGTA is assessing the status of the IRS's preparations for ensuring compliance with the employer mandate and the related information reporting requirements.

²⁸ A refundable tax credit to assist individuals and families in purchasing health insurance coverage through an Affordable Insurance Exchange.

²⁹ The Exchange is where taxpayers find information about health insurance options, purchase qualified health plans, and, if eligible, obtain help paying premiums and out-of-pocket costs.

³⁰ An APTC is paid in advance to a taxpayer's insurance company to help cover the cost of premiums.

³¹ TIGTA, Audit No. 201540317, *Affordable Care Act: Internal Revenue Service Verification of Premium Tax Credit Claims During the 2015 Filing Season*, draft report issued February 2016.

³² The ACA requires Exchanges to provide the IRS with information regarding individuals who are enrolled by the Exchange on a monthly basis. These data are referred to as Exchange Periodic Data (EPD).

³³ MEC is health insurance coverage that contains essential health benefits including emergency services, maternity and newborn care, and preventive and wellness services.

³⁴ TIGTA, Ref. No. 2015-43-030, *Affordable Care Act: Assessment of Internal Revenue Service Preparations to Ensure Compliance With Minimum Essential Coverage and Shared Responsibility Payment Requirements* (Mar. 2015).

IRS COMPLIANCE ACTIVITIES

A serious challenge confronting the IRS is the Tax Gap, which is defined as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year. Despite an estimated voluntary compliance rate of 83 percent and IRS enforcement efforts, a significant amount of income remains unreported and unpaid. In January 2012, the IRS estimated the gross Tax Gap for tax year 2006 to be \$450 billion.

In fiscal year 2015, the IRS reported that it collected more than \$54.2 billion in enforcement revenue, a 9 percent decrease from fiscal year 2014. This is the sixth consecutive year that the IRS has exceeded \$50 billion in enforcement revenue. While enforcement revenue has remained consistent, IRS enforcement activity has decreased due to budgetary constraints.

For example, TIGTA reported that the IRS Collection function activities showed mixed results in fiscal year 2014.³⁵ The amount collected on delinquent accounts by both the Automated Collection System and the Compliance Services Collection Operations increased, while the amount collected by Field Collection decreased. The Collection function continued to receive more delinquent accounts than it closed, although the number of delinquent accounts in the Collection queue decreased, due in part to the removal of millions of accounts that were not resolved. While the use of levies increased, fewer Notices of Federal Tax Lien were filed and fewer seizures were made. Meanwhile, taxpayers' use of the offer in compromise payment option decreased for the first time in the past 5 years.

The Examination function conducted 11 percent fewer examinations in fiscal year 2014 than in fiscal year 2013. The decline in examinations occurred across almost all tax return types, including returns for individuals, corporations, and S corporations. Seventy-one percent of return examinations were conducted via correspondence. In addition to the decline in the number of tax return examinations, productivity indicators also declined. The dollar yield per hour for most return types decreased. The no-change rates increased for most types of examinations (individuals, corporations, and partnerships). Overall, the IRS reported the audit rate was 0.8 percent in fiscal year 2015, down from 1.1 percent in fiscal year 2010. These compliance trends are a continued cause for concern, especially given that diminished enforcement could also affect voluntary compliance over time.

The tax compliance of business and individual taxpayers involved in international transactions also remains a significant concern for the IRS. Complex transfer pricing issues and identifying U.S. taxpayers with hidden foreign assets and accounts continue to demand additional IRS resources.

As this global economic activity increases, so do concerns regarding the International Tax Gap.³⁶ To address the International Tax Gap, the IRS developed an international tax strategy plan with two major goals: (1) to enforce the law to ensure that all taxpayers meet their obligations and (2) to improve service to make voluntary compliance less burdensome.

The IRS also currently faces the challenge of implementing the Foreign Account Tax Compliance Act (FATCA).³⁷ FATCA was enacted to combat tax evasion by U.S. persons holding investments in offshore accounts. Under FATCA, a United States taxpayer with financial assets outside the United States is required to report those assets to the IRS on Form 8938, *Statement of Specified Foreign Financial Assets*. In addition, foreign financial institutions are required to report to the IRS certain information about financial accounts held by U.S. taxpayers or by foreign entities in which U.S. taxpayers hold a substantial ownership interest. The IRS is developing a new international system, the Foreign Financial Institution Registration System, to support the requirements of FATCA. This system is intended to register foreign financial institutions to assist in achieving the primary objective of FATCA, which is the disclosure of U.S. taxpayer foreign accounts. TIGTA reviewed the development of this system and reported that the program management control processes did not timely identify or communicate system design changes necessary to ensure its successful deployment.³⁸

³⁵TIGTA, Ref. No. 2016-30-004, *Trends in Compliance Activities Through Fiscal Year 2014* (Nov. 2015).

³⁶The International Tax Gap is the taxes owed but not collected on time from a U.S. person or foreign person whose cross-border transactions are subject to U.S. taxation.

³⁷Public Law No. 111-147, §§ 501-541, 124 Stat 71, *96-116 (2010) (codified in scattered sections of 26 U.S.C.).

³⁸TIGTA, Ref. No. 2013-20-118, *Foreign Account Tax Compliance Act: Improvements Are Needed to Strengthen Systems Development for the Foreign Financial Institution Registration System* (Sept. 2013).

TIGTA found that the IRS has taken steps to provide affected stakeholders information that explains FATCA requirements and expectations.³⁹ However, TIGTA identified improvements that are required to ensure compliance and to measure performance for foreign financial institutions. If plans are not properly documented, implementation and performance of compliance activities could experience unnecessary delays. TIGTA also identified some limitations with the processing of Forms 8938 which could limit management's ability to make informed decisions and achieve the IRS's compliance objectives related to FATCA. TIGTA will continue to perform audit work to assess the IRS's efforts to improve compliance in this area.

TIGTA BUDGET REQUEST FOR FISCAL YEAR 2017

As requested by the subcommittee, I will now provide information on TIGTA's budget request for fiscal year 2017.

TIGTA's fiscal year 2017 proposed budget requests appropriated resources of \$169,634,000, an increase of 1.41 percent from the fiscal year 2016 enacted budget. TIGTA will continue to focus on its mission of ensuring an effective and efficient tax administration system in this lean budget environment. The fiscal year 2017 budget resources requested include funding to support TIGTA's critical audit, investigative, and inspection and evaluation priorities, while still maintaining a culture that continually seeks to identify opportunities to achieve efficiencies and cost savings.

During fiscal year 2015, TIGTA's combined audit and investigative efforts recovered, protected, and identified monetary benefits totaling over \$26.6 billion, including cost savings, increased revenue, revenue protection,⁴⁰ and court-ordered settlements in criminal investigations, and affected approximately 5.3 million taxpayer accounts. Based on TIGTA's fiscal year 2015 budget of \$158 million, this represents a Return on Investment of \$168-to-\$1.

TIGTA will continue to expand its oversight related to cybersecurity. The proliferation of data breaches reported in recent years and the types of information available on the Internet has compromised the effectiveness of controls used to authenticate individuals when they access their account information. Providing taxpayers with more avenues to obtain answers to their tax questions or access their own tax records online also provides more opportunities for exploitation by hackers and other fraudsters. TIGTA will evaluate the changes being considered for authenticating taxpayer access to their account information; the effectiveness of controls to mitigate external and internal threats to IRS systems; the security of data file transfers to third parties; and the effectiveness of controls to address cybersecurity incidents.

TIGTA's Audit Priorities

TIGTA's audit priorities focus on assessing key areas in which the IRS faces major risks, including ACA implementation and administration; identity theft detection and prevention; risk of unauthorized access to tax account information; international tax compliance; and oversight of the tax-exempt organizations.

Implementation of ACA provisions will continue to present many challenges for the IRS. TIGTA will continue to evaluate the effectiveness of the IRS's verification of employers' and individuals' compliance with minimum essential coverage requirements and the assessment of the shared responsibility payment as well as the IRS's continued efforts to improve the verification of Premium Tax Credit claims. In addition, the ACA also requires employers and insurers to file information returns with the IRS identifying individuals to whom employers offered health insurance and indicating whether the insurance offered met minimum requirements. TIGTA will assess the IRS's efforts to identify employers that do not meet ACA requirements.

Stopping identity theft and refund fraud continues to be a top priority for the IRS and for TIGTA in our oversight role. Identity theft patterns are constantly evolving and the IRS needs to continuously adapt its detection and prevention processes. The risk for unauthorized access to tax accounts for the purpose of filing fraudulent tax returns will continue to grow as the IRS focuses its efforts on delivering taxpayers self-assisted interactive online tools. Tax account information obtained through unauthorized accesses, such as the Get Transcript data breach, can be used to file fraudulent tax returns that more closely resemble a legitimate tax return, making it more difficult for the IRS to detect. TIGTA will continue to assess the IRS's efforts to detect refund fraud committed by identity thieves and authenticate individual

³⁹TIGTA, Ref. No. 2015-30-085, *The Internal Revenue Service Has Made Progress in Implementing the Foreign Account Tax Compliance Act* (Sept. 2015).

⁴⁰Recommendations made by TIGTA to ensure the accuracy of the total tax, penalties, and interest paid to the Federal Government.

taxpayers' identities at the time tax returns are filed and when services are provided.

International tax compliance remains a significant area of concern. We will be continuing to assess the IRS's compliance efforts in this area, including its use of the tools that the law provides to assist in its efforts. One of the most significant tools is FATCA, which mandates reporting obligations for certain U.S. taxpayers with foreign accounts and also provides for the sharing of information between the U.S. and foreign financial institutions to ensure compliance with those obligations.

Additionally, TIGTA will be auditing the IRS's implementation of the new legislative requirement to utilize Private Debt Collectors (PDCs). On December 4, 2015, the Fixing America's Surface Transportation Act (FAST Act) was signed into law. It included provisions which amend Internal Revenue Code (IRC) Sections (§) 6306 and 6307 to mandate the use of PDCs to collect inactive tax receivables. Pursuant to IRC §306(j), TIGTA will also biannually provide an independent review of contractor performance.

Finally, OA will be continuing to provide close oversight of the IRS's tax-exempt organization program. These entities are not subject to Federal income tax, but they represent a significant aspect of tax administration.

TIGTA's Investigative Priorities

TIGTA's investigative priorities include investigating allegations of serious misconduct and criminal activity by IRS employees; ensuring that IRS employees are safe and that IRS facilities, data and infrastructure are secure and not impeded by threats of violence; and protecting the IRS against external attempts to corrupt or otherwise interfere with tax administration.

IRS employees are entrusted with the sensitive personal and financial information of taxpayers. It is particularly troubling when IRS employees misuse their positions in furtherance of identity theft and other fraud schemes. TIGTA will continue to process and investigate the complaints from taxpayers, the Congress, IRS employees and managers, as well as continue to use sophisticated data mining tools to proactively search for internal and external criminal activity that impacts the efficient operations of the IRS. This includes proactively reviewing the activities of the 56,000 IRS employees who access taxpayer accounts for an indication of unauthorized accesses that may be part of a larger identity theft fraud scheme.

Between fiscal years 2011 and 2015, TIGTA processed 12,176 threat-related complaints and conducted 5,971 investigations of threats made against IRS employees. TIGTA will continue to aggressively investigate individuals who threaten the safety and security of the IRS and its employees.

The recent large-scale cybersecurity incidents in which criminals were able to obtain the information of hundreds of thousands of taxpayers from IRS systems continue to be a major investigative focus for our investigators. We are in the midst of a multi-agency investigation into these incidents and we are, as able, sharing what we are learning from these investigations with the IRS.

As mentioned earlier in my testimony, TIGTA has received more than one million reports from taxpayers claiming that they were contacted by individuals impersonating IRS employees in an effort to defraud them. To date, thousands of victims have paid close to \$29 million to the scammers. TIGTA will continue to investigate these crimes against taxpayers and alert the public to this scam to ensure that taxpayers are not harmed by these criminals.

We at TIGTA take seriously our mandate to provide independent oversight of the IRS in its administration of our Nation's tax system. As such, we plan to provide continuing audit coverage of the IRS's efforts to operate efficiently and effectively and to investigate any instances of IRS employee misconduct.

Chairman Boozman, Ranking Member Coons, and members of the subcommittee, thank you for the opportunity to share my views.

Senator BOOZMAN. Thank you again very much for being here, we appreciate your hard work. Your office recently reported that approximately another 390,000 taxpayers account for suspicious attempts related to the Get Transcript application and 295,000 taxpayer transcripts were targeted but access was not successful.

This is in addition to the original announcement from May 2015, and also the later announcement from August. Should the IRS have been able to identify the full scope of this attack?

Mr. GEORGE. You know, in an ideal world, sir, the answer is yes, but we have to be realistic here. This is such a dynamic, amor-

phous effort on the part of people who are extraordinarily sophisticated—meaning foreign governments—to individuals sitting in their dens, on their sofas, in rooms around the world.

Senator BOOZMAN. How are you able to identify so many more than they were?

Mr. GEORGE. Well, you know, what we were able to do, sir—a lot of it relies on people reporting the problem. I am extraordinarily proud of my team of investigators and auditors, inspectors and evaluators.

When someone calls in, myself included, and gives that fake telephone number that was provided by the scammer, we have procedures in place, and I do not want to give away the entire way we address this, sir, working with the telephone companies to block those telephone numbers to make it much more difficult for the scammers to use identical numbers to continue this problem.

Again, off camera, we would be more than happy to provide you with more information as to how we go about doing that.

Senator BOOZMAN. Sure. Well, thank you. Recently, you found that the IRS failed to properly assess the risk of the Get Transcript application. We also learned other IRS electronic applications were susceptible to security breaches.

As IRS moves to a future state environment, what level of confidence do you have that the IRS is assessing risk of its applications before rushing to provide online services to taxpayers?

Mr. GEORGE. They have such a difficult balancing act there, Mr. Chairman. There is no question that it is in everyone's best interest to allow for people to comply with their tax obligation. The easier that people are able to do this, the more likely they are to comply.

As I alluded to in my earlier comment, the fact that this is such a rapidly growing and expanding problem, if the IRS could find a solution today, that would be antiquated tomorrow. That is no exaggeration.

They have to have the resources. They have to have the commitment, and I do believe they have the commitment under the current Commissioner, but they need the resources, and they are competing with the private sector for some of these top-notch people.

Senator BOOZMAN. It was hacked almost immediately, was it not, as soon as it was put up?

Mr. GEORGE. That is my understanding.

Senator BOOZMAN. I guess the question is why would you go forward until you completely made sure it was somewhat filtered at least?

Mr. GEORGE. I would have to defer to the Commissioner to give you a definitive response, but it has to be noted too, sir, that the IRS, because of it being a Government agency, has to be open with the problems that it encounters, whereas many of the private sector organizations that seem to be extraordinarily effective in terms of avoiding these types of problems are less required to do so under their stock charter or whatever requirements they have to their stockholders, they don't have the same reporting obligations, and yet they have encountered many of the same problems.

Senator BOOZMAN. Right. We understand the IG is responsible for following up, as you testified and others have talked about, and

prosecuting the IRS impersonation scammers. IRS reported the IG has received 896,000 contacts since October 2013, and had become aware of over 5,000 victims.

Again, in following up on the Senator from Maryland's question, she asked them what they were doing in order to alieve this problem. What is the IG doing? What are you doing in order to help with the problem?

Mr. GEORGE. Yes, sir. First, just to be clear, the number now is in excess of a million people in the impersonation scam. The key is we are engaged in a multi-faceted approach, sir.

Everything from public service announcements—my late mom just told me a few weeks before she passed away, which was not too long ago, that when she got one of these calls, she hung up on them. She was extraordinarily proud of that fact. She said, “Russell, I hung up on them.” I said, “Mom, that was the right thing to do.”

That is the key. You have to get people informed about this scam, and unfortunately, you are right, many senior citizens fall prey to this, but it is not just senior citizens, sir.

The dollar amounts are bewildering, sir, that potentially are at risk here.

Senator BOOZMAN. You mentioned a million, and then I had 5,000 victims.

Mr. GEORGE. Oh, I am sorry.

Senator BOOZMAN. No, I had 896,000 as far as received contacts, with 5,000 victims. Do you have an update on the actual victim number?

Mr. GEORGE. It is roughly in the 5,000 range.

Senator BOOZMAN. Okay. Senator Coons.

Senator COONS. Thank you, Senator Boozman. Just to follow up on that point, these roughly 5,000 victims have paid out something like \$30 million, \$26 to \$30 million?

Mr. GEORGE. Yes.

Senator COONS. What more could we be doing in partnership with TIGTA to shut down these scams and to inform and educate Americans, particularly seniors who tend to be vulnerable to high pressure tactics or folks whose first language is not English or recent immigrants? These tend to be those most targeted. How could we be more successful in shutting down these scams, and is the IRS doing enough?

Mr. GEORGE. The IRS, to the extent that they have the resources, is attempting to do enough. Now, again, I have to repeat, getting information out there. Many members of the House and Senate, when you reach out to your constituents in your newsletters or during town hall meetings, make this scam more aware to your constituents.

Again, the PSA that we and the IRS are doing—I will tell you what really would help all involved, if we were able to successfully prosecute more of these perpetrators, and for the courts to impose very stringent punishments to serve as a deterrent effect to those who commit these crimes.

Unfortunately, a lot of this occurs overseas, which makes it much more difficult for our law enforcement officials to have access to them, and in a few instances and hopefully in the near future, we

will be able to announce some of those bad people have been caught and will face justice.

Senator COONS. You have identified in a report the single greatest challenge to the IRS being information security, sort of the top management challenge. You have spoken today at some length about why, lack of resources and the challenge of a constantly evolving world, and the unique role the IRS plays in terms of accessing financial information.

As they move towards a future state and as they learn lessons from the Get Transcript application challenge, are you confident that their request this year actually responds to the concerns that TIGTA has identified, and they are in fact planning to incorporate sound multi-layer electronic authentication specifications in any future applications?

Mr. GEORGE. It is a step in the right direction. I have to admit that TIGTA has made recommendations in the past which the IRS has not immediately adopted, and to their defense, it is because, as they pointed out, due to a lack of resources. They have to pick and choose what laws they have to enforce and when.

I believe that a concerted effort on the part of the Commissioner, the Secretary, and the Congress will help address this problem. Will it be solved completely, sir? I am not saying when about that, given again the nature of this, and the dollar amounts that are involved.

People, even if they are starting to wise up about this, are still falling prey to it.

Senator COONS. Last, I asked previously about the tax gap and enforcement issues. As the IRS watchdog, what do you recommend as the best long-term strategy for tackling the tax gap, and in your view, is the IRS hampered in its ability to acquire more robust information reporting by the lack of some legislative authority that you would recommend that would reduce impediments to the IRS narrowing this gap?

Mr. GEORGE. Yes. More information provided by third parties, the higher the compliance rate. The IRS itself reports that when information about income is provided by a third party, the compliance rate is in the high 90s. When it is not, it is half of that, in the 50s. Again, a much dated piece of information, when it is an all-cash business, the compliance rate falls under 20 percent.

The recently passed legislation which requires the provision to the Internal Revenue Service of income information by January 31 is a very productive step in the right direction. As you know, prior to that, that information was not required until March, which allowed a huge time gap between when people could file for refunds and when the IRS had adequate information as to the amount of income that person made and what refund he or she was entitled to.

Senator COONS. Thank you. Thank you both for your testimony and for your service. That is encouraging.

Mr. Chairman, if I might, I would like to ask consent that the statement by President Anthony Reardon of the National Treasury Employees Union be entered into the record of this hearing.

Senator BOOZMAN. Without objection.

[The statement follows:]

PREPARED STATEMENT OF ANTHONY M. REARDON
NATIONAL PRESIDENT
NATIONAL TREASURY EMPLOYEES UNION

Chairman Boozman, Ranking Member Coons and distinguished members of the subcommittee, I would like to thank you for allowing me to provide comments on the IRS budget request for fiscal year 2017. As President of the National Treasury Employees Union (NTEU), I have the honor of representing over 150,000 Federal workers in 31 agencies, including the men and women at the IRS.

Mr. Chairman, NTEU strongly supports the administration's fiscal year 2017 budget request of \$12.28 billion for the IRS, an increase of more than \$1 billion above the current fiscal year 2016 level. We are particularly pleased the administration's request would provide the IRS with the additional resources necessary to restore customer service levels that have fallen in recent years due to funding cuts totaling \$1.2 billion, and to begin rebuilding its depleted workforce which is down more than 15,000 full-time employees since fiscal year 2010. Without this additional funding, the IRS' ability to serve taxpayers and enforce our Nation's tax laws will continue to erode.

TAXPAYER SERVICES

Providing quality customer service to the taxpayer is an important part of IRS efforts to help the taxpaying public understand its tax obligations while making it easier to comply. Unfortunately, the IRS' ability to provide excellent taxpayer service has been severely challenged due to reduced funding in recent years and the cuts mandated by sequestration. Without additional resources, further degradation in taxpayer services will occur, jeopardizing our voluntary compliance system.

Impact of Funding Reductions on IRS Taxpayer Services

Mr. Chairman, funding reductions in recent years have had a devastating impact on IRS' ability to provide taxpayers, including victims of identity theft, with the service they need in a timely manner. Since fiscal year 2010, the IRS has absorbed \$1.2 billion in cuts despite the fact that they are handling more than 10 million additional tax returns a year, and the number and complexity of tax refund fraud cases are on the rise. The funding cuts have resulted in a reduction of about 34 percent in the number of assistants answering telephone calls between fiscal years 2010 and 2015 and contributed to the lowest level of telephone service in fiscal year 2015 compared to recent years. In addition, reduced funding forced the IRS to implement a number of service initiatives during fiscal year 2015 that included reducing or eliminating certain telephone and walk-in services, and redirecting taxpayers toward other service channels such as IRS's Web site.

In a recent letter to Congress, the IRS highlighted some of the adverse impacts these reductions had on the IRS' ability to deliver taxpayer services during the most recent filing season. These include:

- A reduction in the percentage of callers seeking live assistance who received it (telephone level of service) to 38 percent—down from 74 percent in fiscal year 2010.
- Taxpayers waiting about 23 minutes on average for an IRS representative to get on the line, with more than 60 percent of calls going unanswered. This represents a sharp decline from 2010, when the IRS answered three-quarters of calls and had an average wait time of just under 11 minutes.
- The IRS was not able to answer any tax-law questions except “basic” ones during the last filing season and no tax law questions after the filing season, leaving the roughly 15 million taxpayers who filed later in the year unable to get answers to their questions by calling or visiting IRS offices.
- The IRS historically has prepared tax returns for taxpayers who need help, particularly for low income, elderly, and disabled taxpayers. Eleven years ago, it prepared some 476,000 returns. That number declined significantly over the past decade, and last year the IRS announced it will no longer prepare returns at all.

In addition, as a result of budget cuts, the IRS was forced to reduce staff devoted to face-to-face assistance at walk-in sites by about 4 percent in fiscal year 2015 compared to the previous year, and directed customers to self-service options. However, the percentage of customers at walk-in sites waiting for longer than 30 minutes for service increased by 7 percentage points (from about 25 to 32 percent) during the same period.

The importance of providing taxpayers with timely assistance over the phone or in person is of particular importance for victims of identity theft and other types

of tax refund fraud. These cases are extremely complex cases to resolve, frequently touching on multiple issues and multiple tax years and the process of resolving these cases can be very frustrating for victims.

While the IRS has made considerable progress in this area, additional work remains. Fighting identity theft is an ongoing battle as identity thieves continue to create new ways of stealing personal information and using it for their gain. Therefore, it is critical that the IRS has the resources and staffing necessary to prevent refund fraud from occurring in the first place, investigate identity theft-related crimes when they do occur and help taxpayers who have been victimized by identity thieves as quickly as possible.

That is why NTEU strongly supports the President's request of \$2.4 billion in funding for taxpayer services in fiscal year 2017. This funding will allow the IRS to increase the telephone level of service to 70 percent, provide assistance to victims of identity theft in a timely manner, and help taxpayers understand their obligations, correctly file their returns, and pay taxes due in a timely manner.

Mr. Chairman, it is evident that drastic funding reductions in recent years have seriously eroded the IRS' ability to provide taxpayers with the services they need. Without the additional funding proposed in the administration's budget request, taxpayers will continue experiencing a degradation of services, including longer wait times to receive assistance over the telephone, increasing correspondence inventories, including letters from victims of identity theft and taxpayers seeking to resolve issues with taxes due or looking to set up payment plans.

ENFORCEMENT

Mr. Chairman, NTEU believes a strong enforcement program that respects taxpayer rights, and minimizes taxpayer burden, plays a critical role in IRS' efforts to enhance voluntary compliance, combat the rising incidence of identity theft and reduce the tax gap.

Impact on Efforts to Reduce the Federal Deficit

Unfortunately, funding reductions in recent years are undermining IRS' ability to maximize taxpayer compliance, prevent tax evasion and reduce the deficit. The adverse impact of insufficient funding on IRS' capacity to collect revenue critical to reducing the Federal deficit is clear. In fiscal year 2015, on a budget of \$10.9 billion, the IRS collected \$3.3 trillion, roughly 93 percent of Federal Government receipts. According to the IRS, every dollar invested in IRS enforcement programs generates roughly \$6 in increased revenues, but reduced funding for enforcement programs in recent years has led to a steady decline in enforcement revenue since fiscal year 2007. In fiscal year 2015, IRS enforcement activities brought in \$54.2 billion, down \$5 billion from the \$59.2 billion of fiscal year 2007.

The reduction in revenue can be partly attributed to a reduction in the total number of IRS enforcement personnel, including revenue agents and employees in the correspondence audit program, which have limited the IRS' impact on voluntary compliance. The number of revenue agents fell 7 percent from 11,422 to 10,657 in fiscal year 2015, the lowest it has been since before 2005, when there were 20 million fewer taxpayers, while reduced staffing in the correspondence audit program resulted in roughly 16,000 fewer case closures and potentially \$75 million in lost revenue.

Without sufficient staffing to effectively enforce the law to ensure compliance with tax responsibilities and combat fraud, our voluntary tax compliance system is at risk. And as the IRS Commissioner has repeatedly noted, a simple 1-percent decline in the compliance rate translates into \$30 billion in lost revenue for the Government.

Sufficient enforcement staffing is also critical if the IRS is to make further progress on closing the tax gap, which is the amount of tax owed by taxpayers that is not paid on time. According to the IRS, the amount of tax not timely paid is \$450 billion, translating to a noncompliance rate of almost 17 percent.

While the tax gap can never be completely eliminated, even an incremental reduction in the amount of unpaid taxes would provide critical resources for the Federal Government. At a time when Congress is debating painful choices of program cuts and tax increases to address the Federal budget deficit, NTEU believes it makes sense to invest in one of the most effective deficit reduction tools: collecting revenue that is owed, but hasn't yet been paid.

That is why NTEU was happy to see the administration's budget request would provide a total of \$5.2 billion to support IRS enforcement activities, an increase of more than \$356 million over the current level. The increased funding is designed to protect revenue by identifying fraud, including tax related identity theft, and strengthen examination and collection programs. The increase is also supported by

a program integrity cap adjustment totaling \$514 million, which includes funding for both the Enforcement (\$231 million) and the Operations Support (\$283 million) accounts. This additional funding is designed to restore enforcement of current tax laws to acceptable levels, investigate transnational organized crime, pursue abusive tax schemes and enforce the new Foreign Account Tax Compliance Act (FACTA). According to the administration, the cap adjustment will help generate \$46 billion in net savings over the next 10 years. This estimate does not account for the deterrent effect of IRS enforcement programs, estimated to be at least three times larger than the direct revenue impact.

CONCLUSION

Mr. Chairman, thank you for the opportunity to provide NTEU's views on the administration's fiscal year 2017 budget request for the IRS. NTEU believes that only by restoring critical funding for effective enforcement and taxpayer service programs can the IRS provide America's taxpayers with quality service while maximizing revenue collection that is critical to reducing the Federal deficit.

Senator BOOZMAN. I also would like to ask unanimous consent that the statement by the Taxpayer Advocate also be included in the record. Again, hearing no objection, we will also do that.

[The statement follows:]

PREPARED STATEMENT OF NINA E. OLSON, NATIONAL TAXPAYER ADVOCATE

Chairman Boozman, Ranking Member Coons, and distinguished members of this subcommittee:

Thank you for inviting me to submit this statement regarding the proposed budget of the Internal Revenue Service for fiscal year 2017.¹

From fiscal year 2010 through fiscal year 2016, we estimate the IRS's budget has been reduced by about 19 percent on an inflation-adjusted basis. That is a huge reduction for any organization, particularly a large agency that is labor-intensive like the IRS. At the same time, the IRS has been given significant new responsibilities, including implementation of the Foreign Account Tax Compliance Act (FATCA) and large portions of the Patient Protection and Affordable Care Act (ACA), which require significant resources.

The combination of reduced resources and more work has eroded the IRS's ability to serve taxpayers and promote voluntary compliance. The additional \$290 million in funding that Congress has provided in fiscal year 2016 is very helpful, and because of it the IRS has performed much better at answering taxpayer telephone calls this year than at this time last year.

The IRS remains resource-constrained, and there are limits to how much its performance can improve unless and until it receives additional resources. Nevertheless, the agency must continue to do its best with whatever resources it is given, and in my 2015 Annual Report to Congress I have made many recommendations that would improve IRS performance without significant or even any investments of resources. In this statement, I will focus on seven areas where I believe it can do better:

1. *IRS Future State Plan.* The IRS has developed a Future State plan that envisions how the agency will operate in 5 years and beyond. A central component of the plan is the creation of, and reliance on, online taxpayer accounts. The IRS believes online accounts will produce significant cost savings and enable it to substantially reduce its expenditures for telephone and in-person assistance. I believe the IRS is wrong and that it is critical it maintain robust personal service options.
2. *Taxpayer Assistance at IRS Taxpayer Assistance Centers (TACs).* The IRS has been reducing taxpayer service options at its TACs for several years, and it has recently decided to switch to an "appointment-only" system at all of its TACs by the end of 2016. The TACs, which were previously known as "walk-in sites,"

¹The views expressed herein are solely those of the National Taxpayer Advocate. The National Taxpayer Advocate is appointed by the Secretary of the Treasury and reports to the Commissioner of Internal Revenue. However, the National Taxpayer Advocate presents an independent taxpayer perspective that does not necessarily reflect the position of the IRS, the Treasury Department, or the Office of Management and Budget. Congressional testimony requested from the National Taxpayer Advocate is not submitted to the IRS, the Treasury Department, or the Office of Management and Budget for prior approval. However, we are providing courtesy copies of this statement to both the IRS and the Treasury Department.

will no longer accept walk-in taxpayers anywhere, and it is conducting a pilot under which it is not even accepting tax payments from walk-in taxpayers. I believe the IRS's unwillingness to help walk-in taxpayers fails to meet the needs of many taxpayers for personal assistance, and I find the notion of declining to accept tax payments from walk-in taxpayers inexplicable and baffling for a tax collection agency.

3. *IRS Management of Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) Programs.* Beginning in 2014, the IRS discontinued its longstanding practice of preparing tax returns at its TACs for taxpayers seeking its assistance. That work has largely shifted to VITA and TCE programs. Yet the IRS imposes many restrictions on VITA and TCE programs that prevent taxpayer needs from being met. For example, volunteer programs cannot prepare tax returns for many sole proprietors and for many taxpayers with capital gains or losses.² As a result, more taxpayers can no longer obtain free assistance in preparing their returns, which imposes burden on these taxpayers and may undermine voluntary compliance.
4. *Impact of Stolen Identity Refund Fraud on Victims.* For nearly a decade, the tax system has been plagued by stolen identity refund fraud, wherein identity thieves impersonate legitimate taxpayers to try to obtain tax refunds in their names. Victims of tax-related identity theft face several consequences, including considerable hassle proving their identities, lengthy delays in receiving their refunds, and often a general feeling of helplessness that their privacy has been violated. IRS filters are doing a better job of blocking bogus returns, but the “false-positive” rate of these filters has increased, imposing more burden on legitimate taxpayers, and victims continue to be frustrated by the hassle of dealing with the IRS. For any case involving more than one tax issue or more than 1 tax year, I recommend the IRS provide identity theft victims with the name of a single employee they can work with—and who will be held accountable—for the timely and proper resolution of their case.
5. *Impact of Taxpayer Service Cutbacks on U.S. Taxpayers Abroad.* The IRS has significantly reduced its overseas taxpayer service presence in recent years. About a year ago, it eliminated its last four overseas tax attaché posts. A few months ago, it eliminated an online system through which taxpayers could obtain responses to questions and a separate system that allowed IRS customer service representatives to refer taxpayer questions to employees with relevant expertise. These service cutbacks have coincided with the implementation of FATCA, leaving many of the more than 8.7 million U.S. citizens living abroad with more needs and less assistance. I recommend that the IRS re-open its recently closed tax attaché offices and that funding be provided for TAS to open small offices in four appropriate international locations to assist U.S. taxpayers living abroad in resolving problems with the IRS.
6. *Taxpayer Access to the IRS's Office of Appeals.* Congress has long recognized that “all taxpayers should enjoy convenient access to Appeals, regardless of their locality.”³ As a result, Congress required the IRS, among other things, to “ensure that an appeals officer is regularly available within each State.”⁴ Yet today, the IRS reports that 12 States do not have an Appeals Officer. That should change. The IRS has suggested in the past that requiring an Appeals Officer in each State would be costly. We do not agree. Universal coverage does not require more Appeals Officers. It would simply require the IRS to relocate a small number of posts of duty from States with numerous Appeals Officers to States with no Appeals Officers. The IRS has also suggested that virtual conferences or circuit riding is sufficient. We do not agree with those contentions, either. In many cases, it would be impossible for an Appeals Officer to judge the credibility of a witness without an in-person conference, and “circuit riding” does not happen often, requiring taxpayers to wait months, or even a year or more, to obtain a face-to-face hearing. By placing an Appeals Officer in each State, the District of Columbia, and Puerto Rico, the IRS would comply

²See IRS Pub. 3676-B, *IRS Certified Volunteers Providing Free Tax Preparation* (Oct. 2015). VITA sites may not prepare a Schedule C with losses or a “complicated” Schedule D.

³S. Rep. No. 105-174, at 92 (1998).

⁴Internal Revenue Service Restructuring and Reform Act, Public Law No. 105-206, Title III, Subtitle E, § 3465(b), 112 Stat. 685, 768 (1998).

with the congressional directive and give meaning to “The Right to Appeal an IRS Decision in an Independent Forum.”⁵

7. *The Need for an IRS Enterprise Case Management System in General and the Taxpayer Advocate Service Integrated System (TASIS) in Particular.* The IRS’s information technology (IT) systems, particularly its case management systems, require an investment of funding to promote efficiency gains and improve taxpayer service. My own organization, the Taxpayer Advocate Service, is operating with a 1980s legacy system known as the Taxpayer Advocate Management Information System (TAMIS). TAMIS is largely obsolete and requires case advocates to perform many tasks manually that can and should be automated. Working with the IRS’s IT function and a contractor, TAS has developed the requirements for a replacement system known as the Taxpayer Advocate Service Information System (TASIS), and about two-thirds of the programming for TASIS has been completed.

About \$20 million has already been spent on TASIS out of a total projected cost of about \$32 million. TASIS was within an estimated 6 months of completion. For the last 3 years, the Senate Appropriations Subcommittee on Financial Services and General Government has repeatedly included TASIS on a list of six “major information technology project activities” about which it has directed the IRS to submit quarterly reports.⁶ Yet the IRS has halted all work on TASIS due to budget constraints. This decision is penny-wise and pound-foolish for three reasons: (1) TASIS would allow TAS’s case advocates to be much more efficient, reducing the number of case advocates needed for a given number of cases, so it would save money after a few years, (2) it makes no business sense to pull the plug on a successful IT project after more than 60 percent of the funds have been spent and it is within 6 months of completion, and (3) there are many business units in the IRS that would benefit from a new case management system, and the TASIS system includes many useful case management features that could be adapted to meet those units’ needs.

I will elaborate on these points below.

- I. The IRS Future State Plan Commendably Commits the IRS to Develop Online Taxpayer Accounts, but the IRS May Be Significantly Underestimating Continuing Taxpayer Demand for Telephone and Face-to-Face Service and It Must Be Required to Maintain Those Services to Meet Taxpayer Needs.

During the past 2 years, the IRS has developed a “future state” plan that details how the agency will operate in 5 years and beyond. There are many positive components of the plan, including the goal of creating online accounts through which taxpayers and their representatives will be able to obtain information and interact with the IRS.

However, the plan raises significant concerns about the continued availability of telephone and face-to-face service. Taxpayer demand for IRS personal service is high and has remained so for many years. Of particular note, the IRS has received more than 100 million taxpayer calls and 5 million taxpayer visits in every year since fiscal year 2008.

The IRS believes that online taxpayer accounts will enable the agency to achieve significant cost savings. In testimony before this subcommittee, for example, the Commissioner recently stated the move toward online accounts “is driven, in part, by business imperatives; when it costs between \$40 and \$60 to interact with a taxpayer in person, and less than \$1 to interact online, we must reexamine how we provide the best possible taxpayer experience.”⁷

While the goal of achieving cost savings is commendable, online accounts will only achieve significant cost savings if either (1) large numbers of taxpayers stop calling

⁵“The Right to Appeal an IRS Decision in an Independent Forum” is one of the ten rights included in the Taxpayer Bill of Rights that the IRS adopted in 2014 and that Congress cross-referenced in subsequent legislation. See IRS, Taxpayer Bill of Rights, *available at* <https://www.irs.gov/Taxpayer-Bill-of-Rights>; see also Consolidated Appropriations Act, 2016, Public Law No. 114–113, Division Q, § 401 (2015) (codified at IRC § 7803(a)(3)).

⁶See S. Rep. No. 114–97, at 39 (2015); S. Rep. No. 113–80, at 34 (2013). In 2014, a similar provision was included in the Senate Appropriations Committee’s draft report, but the draft report was not adopted for that year.

⁷*Fiscal Year 2017 Treasury Department Budget Request: Hearing Before the Subcomm. On Financial Services and General Government of the S. Comm. On Appropriations*, 114th Cong. (2016) (statement of John A. Koskinen, Commissioner of Internal Revenue, at 3).

and visiting the IRS or (2) taxpayers continue to call and visit the IRS in large numbers but the IRS stops serving them.

The IRS recently posted a document on IRS.gov that says: “[W]e recognize that some taxpayers will always prefer to deal with us on the phone or in person. These services will always be available to them in the Future State.”⁸

Assuming that to be true, the crux of my disagreement with the IRS boils down to whether taxpayers will ultimately use online accounts as a *substitute* for personal service or whether taxpayers will use online accounts as a *supplement* to personal service.

For the foreseeable future, I believe taxpayers will use online accounts as a supplement to taxpayer service and therefore that online accounts will not produce a significant reduction in taxpayer telephone calls and visits. This is true for several reasons, including that millions of taxpayers do not have Internet access, millions of taxpayers with Internet access do not feel comfortable trying to resolve important financial matters over the Internet, and many taxpayer problems are not “cookie cutter,” thus requiring a degree of back-and-forth discussion that is better suited for conversation and that taxpayers will insist upon.

A. Post-Filing Contacts

Taxpayers who get into post-filing disputes with the IRS are particularly likely to want to speak with an IRS employee, and there are many taxpayers who fall into this category. In fiscal year 2015, the IRS had actual or possible post-filing contacts with more than nine million taxpayers. Most arose because of proposed tax adjustments the IRS made. Others arose because the IRS temporarily or indefinitely froze tax returns and withheld refunds, generating taxpayer inquiries and attempts to provide substantiation.

If one were to focus solely on the individual audit rate of less than one percent,⁹ one might assume that fewer than 1.5 million individual taxpayers have contacts with the IRS after filing a tax return. In fact, the number of taxpayers who have post-filing contacts with the IRS is vastly larger. For example:

- The IRS makes adjustments to taxpayer accounts under “math error” authority that do not count as audits.¹⁰
- The IRS makes adjustments to taxpayer accounts based on document-matching between information a taxpayer reports on his tax return and information the taxpayer’s employer reports on a Form W-2 or a payor reports on a Form 1099. These adjustments do not count as audits.¹¹
- The IRS operates an Automated Substitute for Return program in which it creates tax returns for taxpayers who did not file and who the IRS believes should have filed a return.¹² The automated returns produced under this program do not count as audits.
- The IRS employs a wide variety of anti-fraud filters to screen out fraudulent tax returns and refund claims. However, these filters are inherently both under-inclusive and over-inclusive. Where filters are over-inclusive, the IRS sometimes notifies taxpayers it has frozen their returns and requires them to submit additional documentation before it can proceed, and it sometimes temporarily suspends the processing of their returns (and the issuance of refunds) pending internal verification measures. Even where the IRS is solely performing internal

⁸IRS Future State: Overview The Path Traveled and the Road Ahead (Draft: February 2016), available at https://www.irs.gov/PUP/newsroom/IRS%20Future%20State%20Journey__R.pdf (last visited March 7, 2016).

⁹In fiscal year 2014, the individual audit rate was 0.86 percent. See IRS fiscal year 2014 Enforcement and Service Results 2, available at <https://www.irs.gov/PUP/newsroom/FY-2014%20Enforcement%20and%20Service%20Results%20—%20web%20version.pdf>. At this writing, the individual audit rate for fiscal year 2015 has not yet been released.

¹⁰IRC § 6213(b) & (g).

¹¹See IRC § 7605 and Rev. Proc. 2005–32, 2005–1 C.B. 1206, regarding contacts with taxpayers and other actions taken by the IRS that are not treated as “examinations.” In general, an examination involves the IRS’s inspection of a taxpayer’s books and records. Among contacts not treated as examinations are those resulting from the matching of information on a tax return with information already in the IRS’s possession and considering any records the taxpayer provides voluntarily to explain a discrepancy between a filed return and information furnished by third parties that is used as part of a data-matching program. See Rev. Proc. 2005–32, § 4.03(1)(b) & (c).

¹²See IRC § 6020. For additional information regarding the automated substitute for return program, see National Taxpayer Advocate 2015 Annual Report to Congress 188–195 (Most Serious Problem: *AUTOMATED SUBSTITUTE FOR RETURN (ASFR) PROGRAM: Current Selection Criteria for Cases in the ASFR Program Create Rework and Impose Undue Taxpayer Burden*).

verification, taxpayers experiencing refund delays will often call the IRS to find out why. These reviews also do not count as audits.

Thus, the number of taxpayers who receive notices and may have to get into a dialogue with the IRS about their unique facts and circumstances is as follows:¹³

FIGURE 1.1.1—POST-FILING NOTICES AND REFUND DELAYS THAT GENERATE TAXPAYER CONTACTS

Individual Audits	1,228,693
Document Matching (AUR) Notices	3,836,216
Math Error Notices	1,886,216
Automated Substitute for Returns	184,776
Refund Delays	2,078,311
Total	9,214,212

It is not realistic to expect that taxpayers who are told they owe more tax or whose refunds have been significantly delayed are going to be satisfied resolving their problems with the IRS exclusively through an online account. A high percentage of taxpayers in this situation will want to speak with an IRS employee so they can be certain they understand the source of the problem and what more they need to do—and to try to obtain reassurance about when they can expect a final resolution.

B. IRS Technology Advancements Historically Have Not Reduced Taxpayer Demand for Personal Services Despite Hopes to the Contrary.

Ever since Congress enacted the IRS Restructuring and Reform Act of 1998,¹⁴ the IRS has been speaking about harnessing technology to improve efficiency and reduce the need for personal service. In fact, the IRS has succeeded in dramatically increasing the percentage of taxpayers who file their returns electronically, it has vastly expanded and improved its Web site to provide more information to taxpayers, and it has launched “Where’s My Refund” to reduce telephone calls. The hope and expectation was that these measures would have substantially reduced taxpayer demand for personal service by phone or in person.

In fact, taxpayer demand for personal service has increased over time. The number of calls the IRS received on its Accounts Management lines over the past decade has risen about 64 million in fiscal year 2006 to about 102 million in fiscal year 2015, an increase of about 59 percent, as shown in the following graph:¹⁵

¹³Sources for data on audit and similar contacts are as follows: IRS Audit Information Management System, Closed Case Database (showing number of individual examinations closed in fiscal year 2015); IRS Compliance Data Warehouse, Notice Delivery System (showing number of CP2000 and CP2501 document-matching notices mailed to distinct taxpayers by the IRS’s Automated Underreporter Program in Fiscal Year 2015); IRS Individual Master File (showing number of math error notices mailed to distinct taxpayers in fiscal year 2015); IRS Collection Activity Report NO-5000-139 (Oct. 5, 2015) (showing number of automated substitute for return (ASFR) notices issued in fiscal year 2015; ASFRs are created with respect to taxpayers that did not file tax returns but that the IRS believes should have filed tax returns). Sources for data on refund delays are as follows: IRS Generalized Unpostable Framework (GUF) report, GUF5740 Closed Inventory Summary (Dec. 17, 2015) (showing that 729,487 returns were initially deemed unpostable for inconsistency with ID theft business rules but were later processed in calendar year 2015 through Dec. 17); IRS Return Integrity & Compliance Services (RICS), *Update of the Taxpayer Protection Program (TPP)* 8, (Dec. 9, 2015) (showing that 649,915 returns were stopped by Taxpayer Protection Program filters but were later found to be legitimate in calendar year 2015 through Dec. 9); IRS Individual Master File (showing that 179,459 returns were stopped due to suspected fraudulent income documents that later were found to be legitimate and 155,103 returns were frozen from Jan. 1 through Sept. 30, 2015 because an identity theft return in the taxpayer’s name had previously been submitted and posted; refund delays of less than 2 weeks are generally excluded from these totals). The number of refund delays shown in this chart is under-inclusive overall because there are additional sources of refund delays. However, a small number of returns may fit into more than one category and therefore be double-counted.

¹⁴Internal Revenue Service Restructuring and Reform Act of 1998, Public Law No. 105–206, 112 Stat. 685 (1998).

¹⁵IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot* (final week of each fiscal year for fiscal year 2006 through fiscal year 2015). The majority of the additional calls were handled by automation. The increase in calls seeking to speak with an IRS customer service representative (CSR) was 20 percent. The IRS’s Snapshot Reports do not specify the number of calls routed to CSRs, but that number can be roughly computed by dividing the number of calls answered by CSRs by the percentage of calls answered by CSRs (known as the “CSR Level

FIGURE 1.1.2—TAXPAYER CALLS TO IRS ACCOUNTS MANAGEMENT TELEPHONE LISTS



(The one-time spike in telephone calls in fiscal year 2008 was attributable to widespread confusion concerning payments under the Economic Stimulus Act of 2008.¹⁶)

Taxpayer demand for face-to-face service at the IRS's walk-in sites has also remained high—above 5.6 million visits in fiscal year 2015—despite IRS service reductions, such as directing employees to refrain from answering tax-law questions and discontinuing the preparation of tax returns.¹⁷

These results are hardly surprising. The continuing demand for personal service despite greater online functionality is not unique to tax administration. For example, the Board of Governors of the Federal Reserve System conducts an annual survey of bank customers who use mobile phones to conduct their banking. The most recent survey found that 72 percent of bank customers reported they had visited a branch and spoken with a teller within the preceding month (an average of two times), and 68 percent reported they had used telephone banking within the preceding month (also an average of two times). In addition, 85 percent reported they had used an automated teller machine (ATM) within the preceding month (an average of three times).

Summarizing these survey results, the report concluded:

Taken together, these estimates indicate that while mobile banking users are utilizing technological platforms at a high rate and on a consistent basis, they have also maintained connections to their banks through the more traditional branch and ATM channels.¹⁸

There is no doubt that secure online taxpayer accounts will be a positive development for both taxpayers and the IRS. But the IRS's own experience with technology improvements and data from other sectors suggest online accounts are unlikely to substantially reduce taxpayer demand for telephone and face-to-face service.

C. National Taxpayer Advocate Public Forums

In my 2015 Annual Report to Congress, I expressed concern that the IRS had developed its Future State plan and the CONOPS that underlie it internally—without

of Service”). The number of calls routed to CSRs on the Account Management telephone lines increased from about 39.8 million in fiscal year 2006 to about 47.9 million in fiscal year 2015. The percentage increase in calls seeking to reach a CSR likely would have been considerably higher absent IRS policies designed to limit the scope of CSR-eligible subjects, such as sharply restricting the scope of tax-law questions CSRs may answer.

¹⁶ Public Law No. 110–185, 122 Stat. 613 (2008).

¹⁷ IRS Wage & Investment Division, Business Performance Review 7 (4th Quarter—Fiscal Year 2015, Nov. 2, 2015).

¹⁸ Board of Governors of the Federal Reserve System, *Consumers and Mobile Financial Services 2015*, at 11 (March 2015), available at <http://www.federalreserve.gov/econresdata/consumers-and-mobile-financial-services-report201503.pdf>.

publishing them or soliciting taxpayer comments. I announced I would hold a series of public forums around the country to seek public comments and would post panelist statements online and publish a summary of what we learned from the public forums in my 2016 Annual Report. I have already held several public forums, and they have produced valuable insights. More are scheduled. Details are posted at <http://www.taxpayeradvocate.irs.gov/public-forums>.

D. “Customer Callback” Technology

The IRS has proposed implementing a customer callback system that would allow taxpayers who call the IRS’s toll-free telephone lines to choose between remaining on hold and receiving a call back when their place in the telephone queue is reached.¹⁹ We believe a customer callback system would significantly improve the taxpayer experience at a reasonable cost, and we urge the IRS to make a final determination about the system this year.

In the President’s fiscal year 2015 and fiscal year 2016 budgets, the IRS proposed this initiative and estimated the cost would be about \$3.3 million.²⁰ In November 2015, Commissioner Koskinen said that although the customer callback technology itself would cost about \$3.5 million, the IRS had determined its phone system would need to be upgraded at a cost of about \$45 million in order to allow the customer callback technology to run.²¹

We think a customer callback mechanism would be a prudent investment despite the cost to upgrade the telephone system. For context, the IRS’s fiscal year 2016 budget proposal requested about \$186 million to increase the Level of Service (LOS) on its toll-free lines to 80 percent.²² The significant majority of that funding would pay for additional customer service representatives and other costs that recur annually. By contrast, the deployment of a customer callback system would essentially be a one-time cost, and it would permanently improve the IRS’s Level of Service.

It should be emphasized that a high percentage of taxpayers who don’t reach the IRS on their first attempt keep calling until they eventually get through. Last year, the overall LOS during the filing season averaged 37 percent, and those taxpayers who managed to reach an IRS telephone assistant waited an average of 23 minutes on hold.²³ On the Taxpayer Protection Program (TPP) telephone line—which taxpayers are instructed to call to validate their identities if the IRS flags their returns as suspicious for identity theft—the LOS during the filing season was 17 percent and the average hold time for successful callers was 28 minutes.²⁴ That means that (1) the average taxpayer had to call nearly three times until he got through overall and (2) the average taxpayer whose refund was held up by the TPP filters had to call nearly six times until he got through.

With customer callback technology, unsuccessful calls would be largely eliminated or at least substantially reduced—as would hold times. Most taxpayers would only have to call the IRS one time. Thus, this one-time cost would improve taxpayer service and substantially increase the LOS for years into the future.

Recommendations

I recommend that Congress direct the IRS to take the following actions:

- Commit to maintain high levels of telephone service and face-to-face service for the foreseeable future. The IRS should not make any plans—explicit or implicit—to reduce telephone and face-to-face service unless and until it becomes clear that taxpayer demand for such services is declining.
- Complete a study of “customer callback” technology with an eye toward implementing it for the 2017 filing season.

¹⁹ See Internal Revenue Service, Congressional Justification for Appropriations accompanying the President’s Fiscal Year 2015 Budget at IRS-20 (2014); Internal Revenue Service, Congressional Justification for Appropriations accompanying the President’s Fiscal Year 2016 Budget at IRS-22 (2015).

²⁰ *Id.*

²¹ See Lisa Rein, *IRS Customer Service Will Get Even Worse This Tax Filing Season*, *Tax Chief Warns*, Washington Post.com, Nov. 3, 2015.

²² See Internal Revenue Service, Congressional Justification for Appropriations accompanying the President’s Fiscal Year 2016 Budget at IRS-22 (2015).

²³ IRS, Joint Operations Center, *Snapshot Reports: Enterprise Snapshot—Accounts Management lines* (April 18, 2015).

²⁴ IRS, Joint Operations Center, *Fiscal Year 2015 Weekly TPP Snapshot Report* (April 18, 2015).

II. The IRS Continues to Reduce Service at the Taxpayer Assistance Centers.

During fiscal year 2015, the IRS piloted a program in 44 of its Taxpayer Assistance Centers (TACs) to offer appointment-only based service to taxpayers.²⁵ In practice, this means that many TACs, which were once known as “walk-in sites,” no longer offer walk-in service to taxpayers.²⁶ While initial information provided to TAS by the IRS regarding this pilot seemed promising, I am very concerned with the pace at which the IRS has decided to move all TACs to appointment-only service, the methodology and measures used to determine the success of the pilot program, and reports TAS has received about recent TAC service. Initially the IRS planned to expand appointment only services to all TACs over fiscal years 2016, 2017, and 2018. Now, however, the IRS intends to convert all TACs to appointment-only scheduling by the end of fiscal year 2016. I do not believe that an entirely appointment-based system meets the needs of taxpayers, and I am concerned about the impact of this approach on voluntary compliance.

While the IRS currently allows taxpayers to walk in to make a tax payment or to drop off a return, it is currently testing a pilot at five TACs where taxpayers will need appointments to complete even these basic tasks. It is harmful to both taxpayers and the public fisc for the IRS to turn away taxpayers who have taken the time to visit a TAC to pay their taxes. This proposal appears even more illogical when taking into account the results of the broader pilot in the 44 TACs. The results show that 20 percent of taxpayers had to wait between 13 and 41 days to obtain an appointment and 5 percent had to wait more than 41 days for an appointment.²⁷ Those are not encouraging results. Asking taxpayers seeking in-person assistance to wait so long to get an appointment or make a payment deters—rather than encourages—voluntary tax compliance.

Anecdotally, TAS has heard numerous complaints concerning the service at TACs, which I have raised through appropriate channels within the IRS. These reports range from the lack of available forms, to being turned away from appointment TACs, to long waits at other TACs. Employees told a taxpayer visiting the San Jose TAC solely to file a return that he needed an appointment. Employees refused to accept the return and advised him to drive an hour to the Oakland TAC where he would not need an appointment. Another taxpayer visited the San Jose TAC to make a payment on an existing installment agreement only to be told he had to make an appointment. Additionally, it has been reported that TAC employees have refused to assist taxpayers because they do not have appointments, *even when there had been no one in the TAC receiving or waiting to receive assistance*. In Brooklyn, an appointment-only site, TAC employees have reported being bored, while in the Manhattan TAC, taxpayers are lined up out the door.

I have continually raised concerns regarding the IRS’s chipping away at the services provided by TACs.²⁸ Over the last few years, the IRS has limited the scope of tax law questions answered, will only answer tax law questions during filing season, and no longer prepares tax returns. With the latest move to appointment-only services, I believe the IRS will continue to use measures that do not fully capture the impact of its decisions on taxpayers and will allow the IRS to attempt to justify further reducing in-person service. Making a service more difficult to use, then touting declining use of that service as a reason to cut the service further or entirely, is disingenuous.

Recommendations

I recommend that the IRS take the following actions:

²⁵ IRS, *Field Assistance Appointment Test Report-Executive Briefing* (Sept. 29, 2015).

²⁶ A proposed Internal Revenue Manual (IRM) currently circulating through internal clearance would permit TAC managers to use discretion to assist drop-in taxpayers experiencing hardships. However, the IRS does not define the term “hardship,” nor does it allow for managers to use discretion to assist taxpayers when there are available TAC employees with no appointments.

²⁷ IRS, *Field Assistance Appointment Test Report-Executive Briefing*, at 7 (Jan. 13, 2016). In addition, 11,496 taxpayers did not show up for their appointments. The IRS removed those appointment wait times from the reported averages.

²⁸ See, e.g., National Taxpayer Advocate 2015 Annual Report to Congress (Most Serious Problem: *Individual Taxpayer Identification Numbers (ITINs): IRS Processes Create Barriers to Filing and Paying for Taxpayers Who Cannot Obtain Social Security Numbers*), National Taxpayer Advocate 2016 Objectives Report to Congress 20–21, National Taxpayer Advocate 2014 Annual Report to Congress (Most Serious Problem: *Taxpayer Service: Taxpayer Service Has Reached Unacceptably Low Levels and Is Getting Worse, Creating Compliance Barriers and Significant Inconvenience for Millions of Taxpayers*).

- Staff TACs during the filing season at sufficient levels that taxpayers generally do not need to make advance appointments to receive service.
- Permit taxpayers to file a tax return or make a payment at any time without the need for appointments.
- Where a TAC generally operates by appointment, allow employees to assist taxpayers without appointments when there is an available employee.

III. Volunteer Tax Assistance Programs Are Overburdened and the Design Grant Structure is Too Restrictive.

A. The IRS's Elimination of Free Return Preparation at the TACs Imposes Undue Burden on Both Volunteer Partners and Taxpayers.

Prior to 2014, hundreds of thousands of taxpayers visited the IRS's TACs for assistance each year in preparing and filing their tax returns. At the start of 2014, the IRS stopped preparing returns at TACs and directed taxpayers to use other free options such as the IRS Free File program, Facilitated Self-Service Assistance (FSA) sites, or Voluntary Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE).²⁹ The IRS stated that commercial tax software and paid preparers are additional options.³⁰ However, these alternatives are not replacements for the service formerly offered by TACs. Unlike TACs, volunteer sites and Free File software cannot prepare forms or handle issues that are "out-of-scope."³¹ Low income taxpayers may not be able to afford software or a paid preparer, while taxpayers with disabilities, limited technology skills, or no access to a computer may be unable to use Free File or commercial software.

With the elimination of tax return preparation services at TACs, it is critical that the IRS provide adequate support for VITA and TCE sites so that taxpayers can obtain free tax return preparation assistance to meet their reporting obligations and comply with the tax laws. In fact, in 2008, the House Appropriations Committee directed the IRS, through VITA and TCE, to "strengthen, improve, and expand taxpayer service."³² The Committee explained the purpose of the VITA grant funds was "[t]o enable VITA programs to extend services to underserved populations and hardest-to-reach areas, both urban and non-urban, as well as to increase the capacity to file returns electronically, heighten quality control, enhance training of volunteers, and significantly improve the accuracy rate of returns prepared by VITA sites."³³

In fiscal year 2015, VITA and TCE programs prepared about 3.8 million returns.³⁴ This amount represents a 10 percent increase over fiscal year 2013 levels, before the IRS eliminated return preparation at the TACs.³⁵ In 2014, a small sample of VITA sites participated in a survey conducted by the non-profit Maryland CASH Campaign. Their survey responses identified specific concerns about the IRS's decision to eliminate tax return preparation services at TACs. Specifically, they indicated that the sites were receiving increased referrals from TACs for out-of-scope and amended returns as well as referrals outside of tax season. In addition, many sites reported they were receiving reduced support from IRS Stakeholder Partnerships, Education and Communication (SPEC), the IRS organization that works with VITA programs.³⁶ The Treasury Inspector General for Tax Administration has noted

²⁹ IRS, *Growth Through Alternative Filing Strategies in the Next ERA Fiscal Year 2014 Program Guide 7* (2014). See also IRS, *Contact Your Local IRS Office*, available at <http://www.irs.gov/uac/Contact-Your-Local-IRS-Office-1> (last visited on March 7, 2016). FSA is interactive tax return preparation software available at some VITA and TCE sites that the taxpayer uses with very little assistance and does not require face-to-face interaction. For a more detailed discussion of our concerns regarding the VITA and TCE programs, see National Taxpayer Advocate 2014 Annual Report to Congress 55–66 (Most Serious Problem: *VITA/TCE Funding: Volunteer Tax Assistance Programs Are Too Restrictive and the Design Grant Structure Is Not Adequately Based on Specific Needs of Served Taxpayer Populations*).

³⁰ IRS, *Fiscal Year 2014 Service Approach Return Preparation Clarification 3* (Jun. 9, 2014).

³¹ "Out-of-scope" returns include forms, schedules, and tax law topics that the IRS identifies each year and may change every year. Examples of out of scope items include moving expenses (*only volunteers with a military certification can preparer these returns*), farm income, and returns for taxpayers in bankruptcy. See IRS Pub. 4012, *VITA/TCE Volunteer Resource Guide, Scope of Service 8–10*, EXT-5 (Dec. 2015).

³² H.R. Rep. No. 110–207, at 25 (2008).

³³ 153 Cong. Rec. H16049 (daily ed. Dec. 17, 2007).

³⁴ IRS SPEC Final Fiscal Year 2014/2015 Comparative Scorecard (Sept. 30, 2015). The reported fiscal year 2015 levels do not reflect the number of taxpayers who are turned away from VITA or TCE sites because the issues they need help with are out-of-scope.

³⁵ IRS SPEC 2013/2014 Comparative Scorecard (Sept. 30, 2013).

³⁶ Maryland CASH Campaign released the survey at the 2014 Common Cents Conference. 2014 Common Cents Conference, IRS VITA Communications Panel, *Impact of Taxpayer Assisted*

that the combination of increased activity at, and decreased funding for, VITA and TCE programs can strain partners' ability to meet taxpayer needs and improve voluntary compliance.³⁷

B. VITA/TCE Programs Are Subject to Limitations and Restrictions that Impede Their Effectiveness.

The guiding principle of the IRS VITA Grant Program is that the grantees should show "incremental increases" in their return preparation each year. The IRS also expects grantees to achieve 100 percent of their grant agreement goals as well as increasing the number of returns compared to the prior year with similar amounts of funding.³⁸ To reduce the additional burdens on taxpayers and the VITA and TCE sites, the IRS grant funding process must change. In particular, the following IRS restrictions on how VITA and TCE partners use their funds limit the effectiveness and reach of both programs:

1. *No Funding for Time Spent on Intake and Processing for Out-of-Scope Taxpayer Issues.*—VITA and TCE sites must perform intake and interview each taxpayer who visits a site.³⁹ However, the sites do not report the time spent on intake and processing for a taxpayer whose issue is out-of-scope or needs amended or prior-year tax returns prepared. The initial interviews provide valuable information and guidance to taxpayers, even if they ultimately cannot be assisted by the VITA or TCE site. However, by the IRS not counting and funding the time spent on this valuable service, taxpayers experience longer wait times or risk being turned away.
2. *Burdensome Training Requirements for Volunteers.*—The IRS suggests that volunteer preparers have 2 years of previous experience and be trained and certified at the advanced level before preparing prior year or amended returns.⁴⁰ Further, volunteer preparers who work in the tax and accounting field, such as attorneys and certified public accountants, are also burdened by the IRS training and certification policy requirement that volunteers who answer tax law questions, instruct tax law classes, prepare or correct tax returns, or conduct quality reviews of completed tax returns must be certified in tax law annually.⁴¹ The IRS should require these volunteers to recertify only on new provisions and changes in tax law. This change could potentially increase volunteer participation of experienced professionals.
3. *Limitations of Mandatory Software.*—The TaxWise software the IRS provides to VITA and TCE volunteers allows return preparation only for the current year and the three previous tax years.⁴² Because VITA and TCE sites are only authorized to use this software, they cannot fully assist a taxpayer who requires the preparation of returns that go back more than 3 years.⁴³ Further, the IRS's restrictions on which volunteers can prepare prior year or amended returns, combined with the limitations of software, discourage sites from preparing these returns.
4. *No Funding for Quality Reviewers.*—Volunteer sites need quality reviewers (even if in a part-time funded capacity) to ensure the accuracy of returns. Without quality reviewers, the programs solely rely on volunteers to verify the

Center Closures: VITA Field Survey Summary Results, available at https://www.surveymonkey.com/sr.aspx?sm=mDtFjCp_2f5M9bobb33JOo8_2ffhVCxrf2eyFcarkizSSx4_3d (last visited March 7, 2016).

³⁷Treasury Inspector General for Tax Administration (TIGTA), Ref. No. 2012-40-049, *Additional Steps Are Needed to Ensure the Volunteer Income Tax Assistance Grant Program Reaches More Underserved Taxpayers* (Apr. 30, 2012).

³⁸IRS Pub. 4883, *Grant Programs Resource Guide for VITA Volunteer Income Tax Assistance & TCE Tax Counseling for the Elderly* 5 (Aug. 2014).

³⁹IRM 22.30.1.3.13.1.2, *Intake and Interview Process* (Oct. 1, 2014).

⁴⁰IRS, *Fact Sheet for SPEC Partners, Preparing Prior Year and Amended Returns at VITA/TCE sites* (Oct. 2015), available at <https://www.irs.gov/pub/irs-utl/FactSheetPriorYearandAmendedReturns.pdf> (last visited March 17, 2015).

⁴¹IRM 22.30.1.3.13.1.2, *Intake and Interview Process* (Oct. 1, 2014). The IRS provides training to volunteers through the Link and Learn application. IRM 22.30.1.3.7.1.3, *Link and Learn Taxes (LLT)* (Sept. 11, 2015).

⁴²IRS, *Fact Sheet for SPEC Partners, Preparing Prior Year and Amended Returns at VITA/TCE sites* (Oct. 2015), available at <https://www.irs.gov/pub/irs-utl/FactSheetPriorYearandAmendedReturns.pdf> (last visited March 17, 2015).

⁴³Taxpayers are sometimes required to provide several years of tax returns to meet certain immigration-related requirements.

quality of the prepared returns, which could potentially lead to improperly prepared returns.⁴⁴

5. *No Funding for Certifying Acceptance Agents (CAAs).*—Failure to fund CAAs imposes an additional burden on taxpayers who need an Individual Taxpayer Identification Number (ITIN).⁴⁵ Having a paid CAA on staff at the VITA or TCE site would allow certification of documents that taxpayers bring in with their Form W-7, *Application for IRS Individual Taxpayer Identification Number*, thus reducing the burden to taxpayers. It would also promote accountability and protect against fraud. Indeed, the IRS recently adopted rules that require VITA programs seeking to become CAAs to have a “responsible officer” who is a “permanent employee” (and, for emphasis, the rules state that “volunteers do not qualify”).⁴⁶ The combination of requiring a VITA site to have a “permanent employee” to qualify as a CAA and barring VITA sites from using these funds to pay the salaries of such employees makes it even more difficult for VITA sites to assist taxpayers who need to obtain ITINs.

Recommendations

I recommend that Congress and the IRS take the following actions:

- Increase VITA funding to maximize the overall resources (Federal and matching funds) available for free tax return preparation assistance.
- Remove VITA and TCE program grant restrictions for specific tax forms, schedules, and issues, including Schedules C, D, and F, and ITIN applications.
- Allow grant funding to be used for quality review, CAAs, and year-round services at select sites.
- Require volunteers who are authorized under 31 C.F.R. Part 10 (Circular 230) to practice before the IRS (*e.g.*, attorneys, CPAs, and Enrolled Agents) to annually recertify only on new provisions and changes in tax law.
- Provide free tax return preparation assistance at TACs in areas with limited access to VITA or TCE volunteers, along with proper staffing and hours to handle taxpayer traffic.

IV. The IRS Is Taking Important Steps to Prevent Stolen Identity Refund Fraud, But It Needs To Do More To Assist Victims.

Tax-related identity theft is an invasive crime that has significant impact on its victims and the IRS.⁴⁷ Apart from the time and frustration involved in dealing with the IRS to prove one’s own identity, taxpayers generally do not receive their refunds until their cases are resolved.

I have concerns about both the IRS’s preventive measures to combat identity theft and the IRS’s approach to identity theft victim assistance.

A. The IRS Should Improve Its Identity Theft Filters and Allocate Sufficient Resources to Staff Its Phone Lines to Respond to Taxpayers Impacted by These Filters.

The IRS uses data analytics to develop various filters to detect suspicious tax returns. One such series of filters is known as the Taxpayer Protection Program (TPP). When the TPP flags a suspicious return, the processing of that return is suspended until the taxpayer is able to verify his or her identity. The IRS sends a letter instructing the taxpayer to either call the TPP phone number or answer some knowledge-based questions online to verify his or her identity.

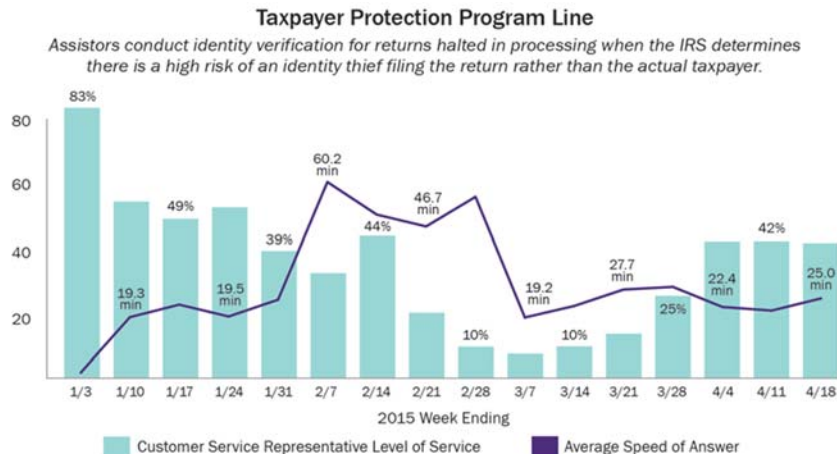
⁴⁴ The IRS uses quality measures to evaluate whether the site receives funding in the future. See IRM 22.30.1.3.13, *Quality Review Process* (Jan. 10, 2013). However, every tax return must be quality reviewed by a person other than the preparer. See IRM 22.30.1.3.13.1(4), *VITA and TCE Quality Site Requirements (QSR)* (Sept. 11, 2015).

⁴⁵ A certifying acceptance agent is a person (*i.e.*, an individual or an entity) who is authorized to assist alien individuals and other foreign persons in obtaining ITINs from the IRS. Rev. Proc. 2006–10, 2006–2 IRB 293 (Jan. 9, 2006).

⁴⁶ IRS Fact Sheet for SPEC Partners, SPEC Certifying Acceptance Agent Initiative (Dec. 2015).

⁴⁷ See National Taxpayer Advocate 2015 Annual Report to Congress 180–187; National Taxpayer Advocate 2014 Annual Report to Congress vol. 2, 44–90; National Taxpayer Advocate 2013 Annual Report to Congress 75–83; National Taxpayer Advocate 2012 Annual Report to Congress 42–67; National Taxpayer Advocate 2011 Annual Report to Congress 48–73; National Taxpayer Advocate 2009 Annual Report to Congress 307–317; National Taxpayer Advocate 2008 Annual Report to Congress 79–94; National Taxpayer Advocate 2007 Annual Report to Congress 96–115; National Taxpayer Advocate 2005 Annual Report to Congress 180–191; National Taxpayer Advocate 2004 Annual Report to Congress 133–136.

Last filing season, approximately one out of three returns suspended by the TPP was a “false positive.”⁴⁸ As a result, hundreds of thousands of taxpayers who filed legitimate returns had to spend time contacting the IRS to verify their identities.⁴⁹ This created a significant backlog of calls to the TPP toll-free phone line. As shown in the figure below, the level of service on the TPP line was below 10 percent for three consecutive weeks.⁵⁰



I support the use of data-driven models to detect suspicious tax returns. However, the IRS has an obligation to sufficiently test these filters—a false positive rate of 36.2 percent is unacceptably high.⁵¹ Furthermore, the IRS has a responsibility to ensure that the phone lines are sufficiently staffed to handle the volume of calls to the TPP. During the 2016 filing season to date (through March 5), the IRS has received about 3.6 million telephone calls on its TPP line, and it has answered only about 12.3 percent.⁵²

B. The IRS Should Assign a Sole Contact Person to Assist Victims of Identity Theft When Multiple Functions Are Involved.

Identity theft cases account for approximately a quarter of all TAS case receipts.⁵³ One reason why so many identity theft cases end up in TAS is because of their complexity—historically, these cases often require actions to be taken by employees from multiple IRS functions.

To improve the victim experience and shorten its identity theft case cycle time, I have recommended that for complex identity theft cases (ones that require the victim to deal with multiple IRS functions), the IRS designate a sole contact person with whom the victim can interact for the duration of the case.⁵⁴ I believe this would not only put the victim more at ease, but would also avoid having an identity theft case fall through the cracks and adding to the cycle time.

⁴⁸ IRS, *IRS Return Integrity & Compliance Services (RICS), Update of the Taxpayer Protection Program (TPP)* 9 (June 24, 2015).

⁴⁹ IRS, *IRS Return Integrity & Compliance Services (RICS), Update of the Taxpayer Protection Program (TPP)* 9 (June 24, 2015).

⁵⁰ For weeks ending February 28, 2015, March 7, 2015, and March 14, 2015, the LOS on the TPP line was 9.7 percent, 7.6 percent, and 9.8 percent, respectively. The graph presents data in the IRS's Fiscal Year 2015 Weekly TPP Reports. In the IRS's Fiscal Year 2016 Weekly TPP Reports, the Average Speed of Answer for Fiscal Year 2015 has been slightly revised and is shown as 0.1 minute shorter for the weeks ending Jan. 10, 2015 and Jan. 24, 2015.

⁵¹ IRS, *IRS Return Integrity & Compliance Services (RICS), Update of the Taxpayer Protection Program (TPP)* (Dec. 2, 2015).

⁵² IRS, JOC, *Fiscal Year 2016 Weekly TPP Snapshot Report* (week ending March 5, 2016).

⁵³ TAS Business Performance Review (fiscal year 2015; run date Oct. 1, 2015).

⁵⁴ National Taxpayer Advocate 2015 Annual Report to Congress 187; National Taxpayer Advocate 2014 Annual Report to Congress vol. 2, 55.

The IRS recently reorganized its identity theft victim assistance units, moving toward a more centralized approach for which our office has long advocated.⁵⁵ As the IRS re-engineers its identity theft victim assistance procedures, it should look at its processes from the perspective of the identity theft victim. Given the multiple points of contact and resulting periods of inactivity, the IRS may find if it adopts our suggestions that it actually will require *fewer* resources to do the same volume of work. I am confident that taxpayers—our customers—would be much more satisfied with their experience.

Recommendation

I recommend that the IRS take the following action:

—For identity theft cases involving more than one tax issue or more than one tax year, assign a single employee within the Identity Theft Victim Assistance unit to work with the identity theft victim until all related issues are fully resolved. The taxpayer should be given the opportunity to speak directly with that employee whenever possible, but if the employee is not available, the taxpayer should be given the option of either leaving a message for the employee or speaking with another available assistor.

V. The Elimination of Key International Taxpayer Service Channels Has Increased Compliance Challenges for International Taxpayers and Undermined Taxpayer Rights.

Despite an increase in the number of international taxpayers, the IRS has significantly decreased its overseas taxpayer service presence in recent years.⁵⁶ While it has plans to expand international criminal investigation locations,⁵⁷ the IRS during late 2014 and 2015 eliminated the last four tax attaché posts abroad, citing a multi-year decrease in its appropriations.⁵⁸ Apart from the attachés, the only free option⁵⁹ for taxpayers abroad to ask a specific question and receive a response from an IRS employee was the Electronic Tax Law Assistance Program (ETLA), which the IRS terminated in October of 2015.⁶⁰ In conjunction with terminating ETLA, the IRS also discontinued R-mail, a system that allowed customer service representatives to refer taxpayer questions to employees with specific expertise.

The elimination of these essential services could not come at a worse time, as taxpayers abroad are facing unique challenges in complying with their obligations under the Foreign Account Tax Compliance Act (FATCA),⁶¹ Foreign Bank and Financial Accounts (FBAR) reporting rules,⁶² and the Affordable Care Act (ACA).⁶³ The combined effect of more requirements and less support is that over 8.7 million U.S. citizens living abroad,⁶⁴ over 170,000 U.S. military service personnel and their families,⁶⁵ and hundreds of thousands of students and foreign taxpayers with U.S.

⁵⁵ See National Taxpayer Advocate 2007 Annual Report to Congress 115.

⁵⁶ National Taxpayer Advocate 2015 Annual Report to Congress 72–81. See also National Taxpayer Advocate 2011 Annual Report to Congress 156, fn. 39; National Taxpayer Advocate 2009 Annual Report to Congress 134–54.

⁵⁷ See Internal Revenue Service Fiscal Year 2016 President's Budget 81 (Feb. 2, 2015), available at <http://www.treasury.gov/about/budget-performance/CJ16/02-06.%20IRS%20FY%202016%20CJ.pdf>.

⁵⁸ There were originally 15 foreign tax attaché posts. On November 30, 2014, the IRS closed its Beijing office. The IRS closed tax attaché offices in Frankfurt, Germany; London, UK; and Paris, France, on June 26, 2015, Sept. 19, 2015, and Dec. 26, 2015, respectively.

⁵⁹ Because taxpayers calling abroad may have to pay long distance toll charges, the international taxpayer assistance line is not considered a free option.

⁶⁰ ETLA allowed the IRS to learn directly from taxpayers what problems and questions they had and how it needed to update its webpages and publications to provide the necessary information.

⁶¹ FATCA was passed as a part of the Hiring Incentives to Restore Employment Act, Public Law No. 111–147, 124 Stat. 71 (2010) (adding Internal Revenue Code (IRC) §§ 1471–1474 & 6038D).

⁶² See 31 U.S.C. §§ 5314, 5321; 31 C.F.R. §§ 1010.350, 1010.306(c); FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), http://www.fincen.gov/forms/bsa_forms.

⁶³ The Patient Protection and Affordable Care Act of 2010 (ACA), Public Law No. 111–148, 124 Stat. 119 (2010) (codified in scattered sections of the U.S. Code), as amended by the Health Care and Education Reconciliation Act of 2010, Public Law No. 111–152, 124 Stat. 1029 (2010).

⁶⁴ The Department of State estimates that 8.7 million U.S. citizens live abroad and more than 80 million U.S. citizens travel abroad annually. U.S. Department of State, Bureau of Consular Affairs (April 2015), <https://travel.state.gov/content/dam/travel/CA%20by%20the%20Numbers-%20May%202015.pdf> (last visited on Mar. 7, 2016).

⁶⁵ U.S. Department of Defense, Defense Manpower Data Center, Ref. No. DRS #54601, *Total Military Personnel and Dependent End Strength By Service, Regional Area, and Country—Mili-*

tax obligations⁶⁶ who benefitted from the tax attaché offices are left with the options of obtaining all their information from IRS.gov Web pages or calling the IRS toll line in the United States.⁶⁷

Moreover, by eliminating ETLA and R-mail, the IRS has shut itself off from taxpayers with no way of knowing (unless a taxpayer makes a mistake and the IRS selects his or her return for audit) whether it is providing the service taxpayers need. In fact, the IRS is limiting the opportunity for interaction and will no longer be able to learn firsthand what taxpayers need. Without a two-way dialogue, information will be filtered and the IRS will decide what it thinks taxpayers need, instead of hearing what information taxpayers want and need.

I am very concerned about the inability of taxpayers to access IRS services from abroad given the overwhelming complexity of the international tax rules and reporting requirements and the potentially devastating penalties for even inadvertent noncompliance.

In addition to re-opening the four recently closed IRS tax attaché offices, the IRS could help meet the service needs of international taxpayers by establishing International Local Taxpayer Advocate (LTA) offices abroad. TAS is statutorily required to assist taxpayers who experience *significant hardships* in resolving problems with the IRS, to identify areas in which taxpayers are experiencing problems in dealing with the IRS and, to the extent possible, to propose changes in the administrative practices of the IRS to mitigate the problems identified.⁶⁸ TAS is the only IRS function exclusively devoted to resolving taxpayer issues with the IRS.⁶⁹ Establishing Taxpayer Advocate offices abroad would ensure that the IRS's international policies, processes, and procedures protect the taxpayer rights *to be informed, to quality service, and to a fair and just tax system*,⁷⁰ and encourage future compliance by taxpayers dealing with the complexity and procedural burden of the international tax rules.

Recommendations

I recommend that the IRS take the following actions:

- Reopen and provide funding for its four tax attaché offices abroad;
- Reestablish the ETLA (or a similar program) with timeframes for responses and create a process for using the information from ETLA inquiries in updates to IRS internal and external materials, including the IRS.gov Web site; and
- Provide funding for and require the IRS to establish Local Taxpayer Advocates in four locations throughout the world, based on where there is the greatest taxpayer need or concentration of U.S. taxpayers.

VI. The IRS Lacks an Appeals Presence in 12 States and Puerto Rico, Depriving Many Taxpayers of Timely and Equitable Face-to-Face Hearings.

Congress has long recognized that “all taxpayers should enjoy convenient access to Appeals, regardless of their locality.”⁷¹ An independent and unbiased Appeals function provides a place for taxpayers to turn when they disagree with a prelimi-

tary (as of Sept. 30, 2015), available at https://www.dmdc.osd.mil/appj/dwp/dwp_reports.jsp (last visited on Mar. 7, 2016).

⁶⁶National Taxpayer Advocate 2015 Annual Report to Congress 81. Since 2011, the National Taxpayer Advocate has recommended establishing international Local Taxpayer Advocate offices at four locations abroad. See also National Taxpayer Advocate 2013 Annual Report to Congress 213; National Taxpayer Advocate 2009 Annual Report to Congress 183.

⁶⁷Over half of taxpayers may be unable to reach an IRS employee on the toll-free phone lines this year. The Commissioner of Internal Revenue recently estimated the level of service on the toll-free phone lines for the entire filing season would “probably be at or above 65 percent,” and the level of service for the full year would be “around 47 percent.” John A. Koskinen, Commissioner of Internal Revenue, Address Before the National Press Club (Mar. 24, 2016), available at <https://www.irs.gov/uac/March-24-2016-Commissioner-Koskinen-Speech-to-National-Press-Club>. See also IRS, *Contact My Local Office Internationally*, <http://www.irs.gov/uac/Contact-My-Local-Office-Internationally>; National Taxpayer Advocate 2013 Annual Report to Congress 205–213.

⁶⁸IRC § 7803(c)(2)(A)(i)–(iii).

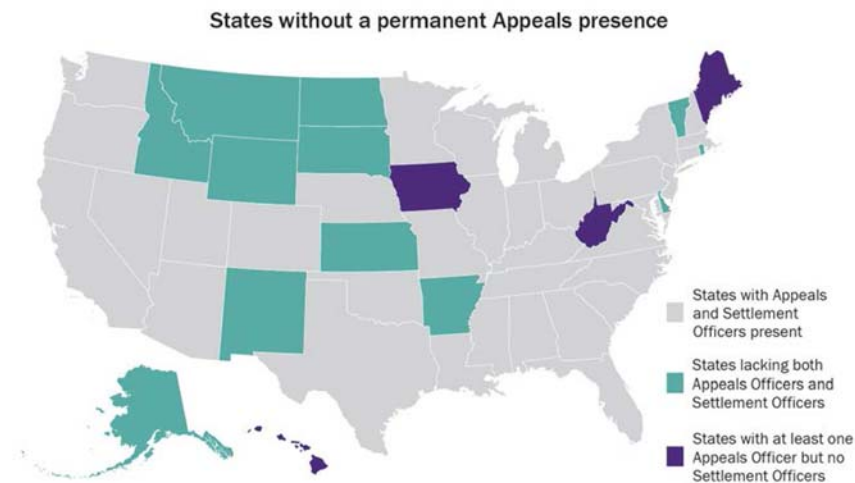
⁶⁹See generally IRC §§ 7803; 7811. See also IRS Pub. 1, *Your Rights as a Taxpayer*. The law requires at least one LTA in each State. International taxpayers cannot access TAS's toll-free telephone number from abroad.

⁷⁰The rights contained in the Taxpayer Bill of Rights (TBOR) that was adopted by the IRS are now listed in the Internal Revenue Code. See Consolidated Appropriations Act, 2016, Public Law No. 114–113, Division Q, Title IV, § 401(a) (2015) (codified at IRC § 7803(a)(3)).

⁷¹S. Rep. No. 105–174, at 92 (1998). See also Internal Revenue Service Restructuring and Reform Act, Public Law No. 105–206, Title III, Subtitle E, § 3465(b), 112 Stat. 685,768 (1998).

nary IRS determination.⁷² Convenient access to an appeal is not only an important element of taxpayer rights, but contributes to the goal of more timely and efficient resolution of disputes between taxpayers and the IRS, and increases overall tax compliance.⁷³

Despite continued warnings from the National Taxpayer Advocate regarding the detrimental effects resulting from the unavailability of Appeals Officers, the IRS, based on data provided to TAS, has 12 States completely lacking a permanent Appeals presence.⁷⁴ The States lacking both an Appeals Officer and a Settlement Officer are depicted in the following map:⁷⁵



This lack of an Appeals presence in each State is potentially prejudicial to impacted taxpayers, as they or their representatives can be forced to travel great distances if they wish to present their Appeals case in person (*e.g.*, taxpayers from Arkansas typically must either wait for Appeals personnel to ride circuit in Arkansas or travel to Oklahoma City or Dallas for a more timely face-to-face conference). Without face-to-face interaction, it can be difficult for Appeals to judge credibility, which in turn can generate extended resource-draining controversies with taxpayers. By contrast, Appeals Officers who are well versed in the local industries and economic circumstances prevailing within a particular region can be indispensable for preserving both the appearance and the reality of fair and equitable treatment.⁷⁶

⁷² See, *e.g.*, 144 Cong. Rec. S7639 (daily ed. July 8, 1998) (statement of Sen. Jeffords).

⁷³ S. Rep. No. 105–174, at 92 (1998). See also Melinda Jone and Andrew J. Maples, *Mediation as an Alternative Option in Australia's Tax Disputes Resolution Procedures*, 27 Australian Tax Forum, (2012).

⁷⁴ See National Taxpayer Advocate 2014 Annual Report to Congress 46–54; 311–14. See also National Taxpayer Advocate 2009 Annual Report to Congress 346–51.

⁷⁵ According to the IRS, the following States lack both Appeals Officers and Settlement Officers: Alaska, Arkansas, Delaware, Idaho, Kansas, Montana, North Dakota, New Mexico, Rhode Island, South Dakota, Vermont and Wyoming. As of 2014, the following States had at least one Appeals Officer but no Settlement Officers: Hawaii, Iowa, Maine, and West Virginia. We originally were given this list in connection with the National Taxpayer Advocate 2014 Annual Report to Congress. See Appeals' Response to TAS information request (Aug. 5, 2014). In preparing this statement, we contacted the Office of Appeals to attempt to validate that the data remains current. Initially, we were told there is now an Appeals Officer in Arkansas, and we were given a spreadsheet showing the number of Appeals Officers in each State. However, we were able to determine that the individual in Arkansas holds the title of Appeals Officer but is serving as a technical advisor to the Area Director and does not hear taxpayer cases. It is therefore possible there are other States where Appeals Officers are listed as resident but do not hear cases. We have not obtained updated information regarding the States that have Appeals Officers but not Settlement Officers.

⁷⁶ National Taxpayer Advocate 2014 Annual Report to Congress 311; National Taxpayer Advocate 2009 Annual Report to Congress 76.

Recommendation

I recommend that Congress take the following action:

—Require the IRS to permanently assign at least one Appeals Officer and Settlement Officer in each State, the District of Columbia, and Puerto Rico.

VII. The IRS Requires Funding to Upgrade and Streamline its Information Technology Systems, Particularly its Case Management Systems, in Order to Meet Taxpayer Needs and Improve Productivity.

In my testimony before this subcommittee last year, I noted that the IRS's information technology (IT) systems, and particularly its case management systems, required an investment of funding to permit real improvements and productivity gains. I believe that this need for IT funding is even more pressing for the upcoming fiscal year.

A. ECM in General

The IRS is currently undertaking an assessment of its case management systems as part of a comprehensive project to create a servicewide enterprise case management (ECM) solution. I use the term “case management” in a comprehensive sense to refer to electronic recordkeeping systems the IRS uses to track information about interactions with respect to taxpayers' tax returns or other tax-related matters. These systems include audit and collection case records for individuals and large, medium, and small businesses; exempt organization determinations; whistleblower claims; automated substitutes for returns; the automated underreporter (AUR) program; criminal investigations; and the Taxpayer Advocate Service case management system.

ECM offers a future vision for consolidated case management that will address the need to modernize, upgrade, and consolidate multiple aging IRS systems. The IRS now supports approximately 200 such systems, few of which communicate with one another and none of which provides an electronic substitute for the paper case file (*i.e.*, there are reams of paper supplementing whatever records are included in the electronic system).⁷⁷ The IRS's current case management system structure requires employees to:

- Retrieve data from many systems manually;
- Maintain both paper and electronic records;
- Transcribe or otherwise import information from paper and other systems into their own case management systems; and
- Ship, mail, or fax an estimated hundreds of thousands, if not millions, of case management files and supporting documents annually for management approval, quality review, and responses to Appeals and Counsel.

The ECM solution involves developing a common infrastructure for multiple projects to share. Implementation of the solution will provide the IRS with a consistently efficient approach to case management across all business units. While I agree that the IRS needs a servicewide ECM solution and am very supportive of such efforts, I am concerned about the IRS's failure to leverage the comprehensive work already completed in creating Taxpayer Advocate Service Integrated System (TASIS).

B. The Taxpayer Advocate Service Integrated System

As I discussed in my testimony before this subcommittee last year and in several of my past Objectives Reports to Congress, TASIS is a versatile case management system that would replace TAS's current antiquated Taxpayer Advocate Management Information System (TAMIS). While ECM focuses on case selection and work assignment capabilities, among other things, TASIS focuses on case intake and case-building functions, creating virtual case files with data auto-populated from other IRS systems and information transmitted electronically between functions for review and action. Once TASIS is completed, the IRS can incorporate elements of TASIS into core ECM for use by other IRS business units, including the Exempt Organization function, Appeals, the Whistleblower Office, and the Innocent Spouse, Identity Theft, and Offer in Compromise units.

When TAS learned that TAMIS was slated for retirement, it capitalized on the opportunity to integrate all of its systems and business processes into a single state-

⁷⁷Email from Director, Enterprise Case Management to TAS Acting Deputy Executive Director, Case Advocacy (Intake & Technical Support) (Mar. 11, 2016).

of-the-art application. TAS developed over 4,000 business requirements for the case management system aspect of TISIS functionality, including:

- Fully virtual case files, in which all documentation (whether IRS or taxpayer-generated) will be scanned or received digitally into an electronic case file;
- Electronic access to other IRS case-management systems, with automatic retrieval of taxpayer information programmed into the system and no further need for TAS employees to obtain and import the information manually;
- Electronic submission and tracking of Operations Assistance Requests (OARs), including receipt, acknowledgement, assignment, and response, in which TAS sends requests, with supporting documentation, to IRS functions to take actions on cases, eliminating delays and time-wasting manual tracking;
- Full access to all virtual case information for purposes of management and quality review, eliminating the delay and cost associated with transporting files;
- Taxpayer (and representative) ability to submit Form 911, *Request for Taxpayer Advocate Service Assistance (And Application for Taxpayer Assistance Order)*, electronically;
- Taxpayer (and representative) ability to submit documentation electronically;
- TAS and taxpayer (and representative) ability to communicate digitally, through email and text messages, including both substantive case information and reminders to help move the case along;
- Taxpayer (and representative) ability to electronically check the status of a case in TAS and see what actions have been taken or are underway; and
- An electronic case assignment system that matches, in real time, the complexity and direct time associated with the case with the skills and available direct time associated with each case advocate in any given office, taking into account an employee's unavailability because of annual leave, sick leave, training, or on-the-job instruction, eliminating delays in assignment, and minimizing the need to transfer cases.

These are just some of the capabilities contained within the TISIS Business System Requirements Report, which collectively illustrates the TISIS case management component will not just replace TAMIS but will significantly increase the productivity of TAS case advocates because they will no longer spend their valuable time tracking down paper documents or inputting information into multiple systems. Moreover, taxpayers will be able to communicate efficiently with TAS and electronically send key case information and documents. This functionality will enable our case advocates to spend their time advocating for taxpayers, rather than performing manual input and tracking documents and IRS actions.

TISIS began the transition from concept to reality in 2014 when an early prototype was rolled out for informal testing. Based on those test results, TAS was just months away from deploying the complete application. In March 2014, however, the IRS IT function notified TAS executives that TISIS would no longer be supported due to budget constraints.

This decision was a significant setback for TAS's case advocates and therefore for the taxpayers they serve. Moreover, even apart from supporting TAS's critical work, the foundation built through TISIS can benefit the IRS's ECM improvement efforts. Because TAS has a working knowledge of almost all other IRS case management systems, we designed TISIS to serve as the basic system upon which other IRS divisions could add modules and functionality to meet their specific needs. Thus, the time, planning, development, and programming that TAS and IT have invested in TISIS can benefit all of the IRS.

At present, it is not clear the extent to which TISIS objectives will be included in the ECM plan or how TISIS will impact or align to the ECM solution. Yet the Senate Appropriations Committee has recognized the importance of TISIS and included it on its list of six "major information technology project activities" about which it directed the IRS to submit quarterly status reports.⁷⁸

Unfortunately, as I mentioned above, because of budget constraints impacting the IRS's IT function, all IT activity on TISIS has come to a halt. To date, about \$20 million—about 62.5 percent of the total estimated cost—has been invested in TISIS Release 1, and about 70 percent of the programming is complete. We are ready to begin the final programming as soon as funds are available. At the time the project was halted, it was estimated that 6 months and \$12 million would be needed to complete Release 1 programming, testing, and launch. At this time, despite the demonstrated savings of TISIS and its benefits for all of the IRS, no funds are allo-

⁷⁸See S. Rep. No. 114–97, at 39 (2015); S. Rep. No. 113–80, at 34 (2013). In 2014, a similar provision was included in the Senate Appropriations Committee's draft report, but the draft report was not adopted for that year.

cated to TISIS. If TISIS is not funded to completion, TAS will be forced to invest time and funds in upgrading TAMIS. This would be extremely wasteful, and would fail to provide TAS's case advocates with the tools they need to assist taxpayers in resolving their problems with the IRS.

As I stated last year, I believe that the design and implementation of TISIS is critical not only for TAS but to the IRS's ability to move forward and begin to harness the savings and burden reduction that a sophisticated case management system promises. For that to happen, the IRS requires sufficient IT funding to invest in new systems that have great promise. TISIS is one such program.

Recommendations

I recommend that Congress take the following actions:

- Provide that a portion of the funds in the IRS Business Systems Modernization (BSM) account shall be spent to complete the programming, testing, and deployment of TISIS as well as to maintain its long-term functionality.
- Provide additional information technology funding for the IRS to upgrade and streamline its enterprise case management systems.

VIII. Conclusion

The recent reductions in the IRS budget at the same time that the IRS has been given significant new responsibilities under FATCA and the ACA are placing a significant strain on the agency's performance. Simply put, the IRS is failing to adequately meet the service needs of U.S. taxpayers. To address this problem, the IRS will need more resources to answer taxpayer telephone calls, process and respond to taxpayer correspondence, assist taxpayers who seek assistance in its walk-in sites, and modernize its IT systems.

In the meantime, the IRS can take steps to serve taxpayers more effectively by giving greater priority to certain programs and improving its resource-allocation decisions. In this statement, I have tried to offer some reasonable and actionable recommendations to help in this regard.

Senator BOOZMAN. I want to thank Senator Coons and his staff, my staff, for their hard work in preparing for the hearing today. We appreciate you being here, appreciate your hard work on behalf of the American people.

ADDITIONAL COMMITTEE QUESTIONS

If there are no further questions, the hearing record will remain open until Tuesday, March 15, at noon for subcommittee members to submit their statements and questions to the witnesses for the record.

[The following questions were not asked at the hearing, but were submitted to the Departments for response subsequent to the hearing:]

QUESTIONS SUBMITTED TO HON. JACOB J. LEW

QUESTIONS SUBMITTED BY SENATOR JOHN BOOZMAN

Question. Recently, the Arkansas Bankers Association, the American Bankers Association, and bankers associations from every State in the country wrote a letter to you with implementation and compliance questions regarding the National Flood Insurance Program. The associations noted the helpful meeting that Treasury convened in December last year. When will you convene a follow up meeting so that the bankers in my State will know how to answer the important flood insurance questions that people in my State are asking?

Answer. Treasury's Federal Insurance Office (FIO) and the Federal Emergency Management Agency (FEMA) of the Department of Homeland Security, which administers the National Flood Insurance Program (NFIP), have co-hosted two stakeholder engagement sessions.

As you note, the first session addressed challenges confronted by lenders with respect to implementation of and compliance with the mandatory purchase of flood insurance requirements. We are pleased that you found this to be a helpful discussion.

The second joint FIO–FEMA stakeholder session addressed questions regarding the education of insurance agents and brokers, and consumers, with respect to the NFIP, and the challenge of increasing the purchase of flood insurance throughout the United States.

We recognize the importance of flood insurance to property owners throughout the United States, and to the lenders who often provide financing in support of the purchase of residential and commercial property. For this reason, although dates have not been set, FEMA intends to continue the stakeholder outreach in order to improve NFIP coverage and to promote awareness and understanding of the NFIP. In addition, Treasury and FEMA will continue outreach to the lender community.

Question. Many financial institutions are in the process of severing ties with businesses or individuals considered high-risk, due to pressure from regulators. If a potential customer or business is a small part of the overall business for the financial institution, it becomes difficult to justify the regulatory costs of continuing to do business with customers whose businesses involve cash, remittances, or money service businesses. What can Treasury and the Financial Crimes Enforcement Network (FinCEN) do to better target regulations to address valid security concerns while avoiding unnecessary regulatory burdens?

Answer. Treasury is focused on both safeguarding the financial system from abuse and promoting financial inclusion. Banks that have terminated relationships or limited specific types of banking services in recent years have articulated a number of drivers, including profitability concerns, macroeconomic factors, and heightened prudential requirements, as well as challenges with anti-money laundering and combating the financing of terrorism (AML/CFT) compliance, including poor implementation of AML/CFT standards in some foreign jurisdictions. Often, decisions are based on a combination of these factors. Treasury is working across a number of fronts to address those factors that we can affect. First, we are working to ensure that U.S. AML/CFT regulations are appropriately balanced and clearly understood. Treasury develops these regulations to address valid security and law enforcement concerns in a manner that ensures key stakeholders, including the private sector, have the opportunity to provide essential feedback necessary to developing effective and targeted AML/CFT regulations. U.S. financial institutions are also expected to implement AML/CFT regulation in a risk-sensitive manner, which means that financial institutions should seek to assess risk and then manage that risk as appropriate. Second, Treasury's Office of Technical Assistance has advisors working with 17 countries across the globe to help improve those countries' compliance with global AML/CFT standards. Third, Treasury pursues a number of multilateral efforts—including through the Financial Action Task Force—to help shape international AML/CFT standards and to ensure that those standards are well understood and applied consistently. The stronger the implementation is of international AML/CFT standards by jurisdictions and financial institutions, the more comfortable U.S. banks' will be in providing financial services to them.

Question. Financial institutions in my State have a number of implementing issues that still need to be clarified regarding the Volcker rule; including the nature of which funds are covered, the definition of "market making," and others. However, the Volcker Rule is administered by 5 independent agencies (the Federal Reserve, FDIC, Office of the Comptroller of the Currency, the SEC, and the CFTC), each of which is reluctant to provide written guidance without sign off by all of the other agencies. As a result, there has been uncertainty and the likelihood of inconsistent application among the regulators. What is the Treasury Department doing to ensure that these agencies work together and give timely and accurate answers to financial institutions with implementation questions?

Answer. The Volcker Rule is a key part of the Dodd-Frank Act that helps to ensure that banking organizations are focused on serving their clients rather than risky trading activities. The statute required the rule to be implemented by five different regulatory agencies. The Chairperson of the Financial Stability Oversight Council (FSOC) also had a statutory role to coordinate the regulation, and we have been closely monitoring the implementation of the Volcker Rule as it comes into effect. The agencies have taken important steps to respond to questions and comments about the rule, and the Treasury Department regularly seeks input from stakeholders about the rule's effects. But I would defer to the five agencies with respect to any particular questions about the implementation of their regulations.

Question. It is my understanding that several of the companies designated by the FSOC for systemic risk regulation do not fully understand the basis for their designation. If a company may pose a systemic risk, shouldn't FSOC make it clear what activities, practices, or operations generate that risk so the company has the ability to eliminate or mitigate that risk?

Answer. Each designated company receives a lengthy and detailed explanation of the basis for its designation by FSOC. These explanations can include hundreds of pages of company-specific analysis that identify specific risks arising from factors such as counterparty exposures and potential fire sale risks. This information allows each company to make informed decisions regarding potential changes it could make if it were to seek a rescission of its designation. For example, for one of the companies that was designated, the FSOC spent almost a year and a half conducting its analysis after beginning its engagement with the company. The Council considered more than 21,000 pages of materials submitted by the company, and staff of FSOC members and member agencies met with representatives of the company 13 times. The FSOC's evaluation, which considered the company's views and information, culminated in a detailed and lengthy analysis (over 300 pages) that the FSOC shared with the company following the proposed designation and before a vote on a final designation.

Question. Treasury has been criticized for a lack of clarity regarding FSOC designations and a lack of clarity on how to de-risk after receiving a Systemically Important Financial Institution (SIFI) designation. How has Treasury responded to these criticisms, and has Treasury made any changes to address the criticism it has received?

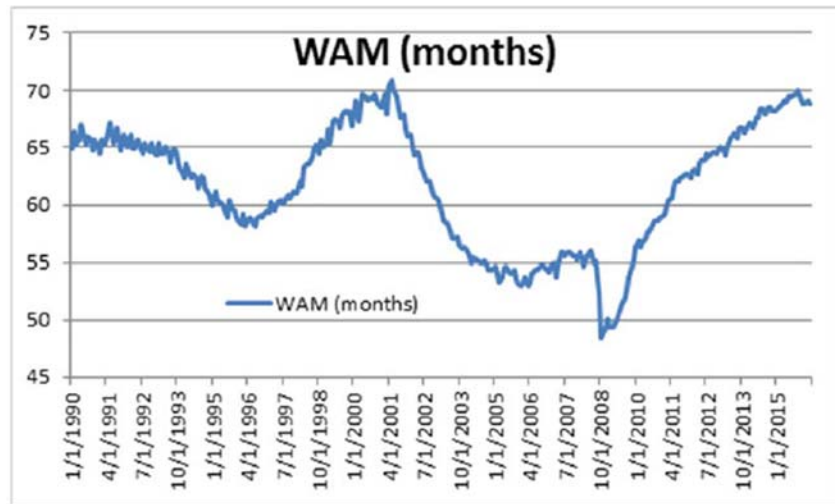
Answer. FSOC has been data-driven and deliberate in its work to evaluate nonbank financial companies for potential designation for Federal Reserve supervision and enhanced prudential standards. FSOC established a robust and transparent process for designations. It issued a rule and guidance on the designations process that included three separate rounds of public comment, even though FSOC was not required to conduct a rulemaking. In addition, FSOC has consistently demonstrated its willingness to periodically examine its activities and adopt appropriate reforms. Last year, after months of engagement with representatives of previously designated companies, industry, public interest groups, the GAO, and Congressional staff, FSOC adopted 17 changes to its designations process that address the three key themes identified by stakeholders: earlier engagement with companies under review for potential designation, increased transparency to the public about designations, and stronger engagement with designated firms during FSOC's annual reviews of their designations. Those process changes also provide each designated company with an opportunity to meet with staff every year to discuss the FSOC's annual reevaluation of the company's designation. One company recently said publicly that the enhancements to the annual review process have been helpful in this respect.

FSOC has also provided to Congress and posted on its Web site an explanation of its basis for each final determination, and has provided each of the designated companies with lengthy analyses describing FSOC's evaluation of that firm. Each company had many months and extensive opportunities to engage with FSOC and its staff, and the opportunity to understand and respond to the key factors underpinning FSOC's analysis before FSOC's vote on a final designation. FSOC is committed to conducting its business in an open and transparent manner but must also protect confidential, company-specific information as required by law.

QUESTION SUBMITTED BY SENATOR CHRISTOPHER A. COONS

Question. Right now, long term interest rates are the lowest they have been in generations. As our debt grows, net interest costs are estimated to skyrocket over the next decade. What is Treasury doing now to lengthen the average maturity rates of our debts in order to lock in the current low rates for our children and our children's children?

Answer. Since the depths of the financial crises Treasury has extended the weighted average maturity (WAM) of all Treasury debt outstanding from 49 months to 69 months. The chart below illustrates this. The average maturity of debt is near highs not seen in nearly 15 years.



In November 2015, Treasury announced that it would increase bill issuance over coming quarters. The increase in bill issuance was designed to help achieve the debt management objective of lowest cost of funding over time and also enhance Treasury market functioning and liquidity, particularly in the short-end of the Treasury market.

The increase in bill issuance was largely expected by market participants. For several quarters, beginning in May 2015, Treasury stated intentions to increase bill issuance. The decision to increase bill issuance was delayed until November 2015 due to concerns about the capacity to implement the increase in bill issuance in the face of debt limit constraints.

Treasury's desire to increase bill issuance reflects the ongoing supply and demand dynamics in the front end of the Treasury market. Over the last several years, as a result of Treasury's decision to rapidly increase in the average maturity of debt outstanding and declining deficits, the supply of bills outstanding as a percentage of the total Treasury portfolio declined to a multi-decade low of approximately 10 percent. Meanwhile, demand for Treasury bills, driven by money fund reform and other macro prudential regulations, remains high and is expected to continue to grow.

Given Treasury's projected financing needs over the next few years and the desire to maintain the existing auction schedule, Treasury announced in February 2016 modest reductions to the issuance size of some coupon securities and Treasury Inflation Protected Securities (TIPS) in order to accommodate increased bill issuance. Despite the increase in bill issuance and the modest reductions to coupon and TIPS issuance, the WAM of outstanding Treasury debt will continue to increase, albeit at a slower pace.

QUESTIONS SUBMITTED BY SENATOR JERRY MORAN

Question. 17 States (beginning with Kansas in 2000) have passed laws allowing those States to escheat title to matured, unredeemed U.S. savings bonds that have been abandoned. I understand that four additional States are right now in the process of passing the same legislation. Those States then use their abandoned-property statutes to return redeemed bond proceeds to the original owners. In contrast with these State-law mechanisms, the Treasury Department appears to lack any meaningful process for contacting owners of matured bonds—even for bonds that matured decades ago.

I understand that Treasury holds the proceeds of over 50 million matured and unredeemed U.S. savings bonds worth \$17 billion, many of which have been fully matured for decades. Once matured, these bonds are, at best, an interest-free loan to Government from its citizens or, at worst, an unintended gift in cases where the

bond owner or his/her heirs lack the necessary information to identify and redeem the bond. What steps is the Department taking to repay this long overdue debt?

Answer. The United States Treasury has sold savings bonds since 1935. All matured savings bonds are in definitive (paper) format. Since 1935, Treasury has required the owner of a paper savings bond to present the bond for payment, or to establish that the bond has been lost, stolen, destroyed, or mutilated. When the owner requests redemption, Treasury retires the debt from a paper savings bond; there is therefore, no “Overdue” debt.

The procedure for requesting redemption is simple. Paper bonds may be redeemed at a local paying agent or by sending them to the Department of the Treasury’s Retail Securities Site. Treasury’s savings bond regulations describe the rules governing the redemption of savings bonds, and further information is available on Treasury’s Web site at www.treasurydirect.gov. Customer service representatives are available by email, telephone, and U.S. mail to answer questions about savings bonds, including the redemption process. In 2015, the Savings Bond program handled approximately 860,030 customer service inquiries on a variety of topics, and redeemed approximately 24 million paper savings bonds valued at \$9.71 billion.

Question. I understand Treasury has only partially “digitized” the hundreds of thousands of reels of microfilm that hold ownership information of U.S. savings bonds, and that even the digitized data is “not searchable,” but is simply a digital image of the microfilm. Does the state of Treasury’s recordkeeping limit its ability to contact the owners of the over 50 million matured but unredeemed U.S. savings bonds? Can searches be done by last known address and/or by State where purchased?

Answer. Treasury has sold U.S. savings bonds continuously since 1935. The records and record systems allow Treasury to fulfill its obligation to redeem savings bonds presented for payment and to answer inquiries from saving bond owners when the owner provides necessary identifying information.

Treasury has undertaken efforts in the past to contact owners to inform them that their bonds have matured, and posted information on its Web site that assists owners in determining whether they have matured bonds. Treasury has also conducted broad outreach efforts through public service announcements, media outreach, trade shows, conferences and periodic mass mailings to savings bond owners. Through some of these efforts, Treasury has learned that a high percentage of savings bond owners are aware that their bonds have matured and have elected not to redeem them at the present time.

People who cannot locate their paper bonds can use the Department of the Treasury’s Web-based TreasuryHunt® application, which allows them to search for matured, unredeemed bonds that were issued since 1974 and registered to them. If a search is successful, the system alerts searchers of a potential match and directs them to fill out and submit an electronic form to redeem a bond in their possession or to file a claim for a lost, stolen, or destroyed bond. In 2015, 700,000 visits to the TreasuryHunt® site yielded 41,000 matches. Although individuals can use TreasuryHunt® to find bonds registered to their Social Security Numbers, they cannot search by State or locality. To further help individuals with matured bonds, Treasury ensures updated information and tools are maintained on its Web sites (e.g., the Savings Bond Wizard for pricing redemption values).

Question. It has been brought to my attention that the Department changed its rules governing State escheatment of matured, unredeemed U.S. savings bonds. Breaking with the long-held view that the Department was required to recognize valid State judicial proceedings, the new rules now say that State title “will not be recognized” except as a matter of the Department’s “discretion.” Is this in fact the case?

Answer. Treasury issued a notice of proposed rulemaking in July 2015 to address a growing number of State escheat claims for savings bonds. After considering public comments, Treasury published a final rule amending the savings bond regulations in December 2015. The final rule is available at 80 FR 80,258 (Dec. 24, 2015).

The final rule is consistent with Treasury’s longstanding view that savings bond ownership is a matter of Federal law, and that Treasury will not recognize State judicial proceedings that interfere with these ownership rights. The preamble to the final rule addresses the topic of State escheat claims in detail. For your convenience, a copy of the preamble and final rule is attached.

QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

Question. The Community Development Capital Initiative (CDCI) was created as part of the Treasury Department’s TARP Bank Investment Program. The CDCI was

intended to provide low-cost capital to Community Development Financial Institutions (CDFIs) and financial stability to mission focused institutions and the distressed communities they serve.

A January 2015 Special Inspector General report found that Treasury went to great effort to ensure the largest banks were allowed exit strategies from TARP that were favorable and ensured no harm to the institutions. However, smaller community banks were not given the same opportunities.

In the case of the CDCI program, CDFI banks have been treated even more unfavorably. Treasury has not presented a written plan, committed to a specific strategy for resolution, or indicated a timeline for resolution for these banks.

What is the Treasury's plan for the resolution of the CDCI portfolio?

Answer. The CDCI program was designed to help stabilize viable certified CDFIs providing banking services to underserved communities through capital investments with an initial dividend rate of 2 percent per annum (compared to the 5 percent rate offered under the Capital Purchase Program). To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate will increase to 9 percent after 8 years, compared to 5 years under CPP. To date, 25 of the 84 CDCI participants have repaid the Treasury. With regards to the remaining CDCI portfolio, to date only 2 of the institutions are not current on dividends and the CDCI banks continue to build capital through retained earnings allowing them to better serve their communities.

The institutions within the CDCI program have the option, with regulatory approval, to repay their investments in whole or in part at any time, and Treasury routinely accepts such repayments and expects to continue doing so.

Question. How will the plan ensure that resolution neither creates instability or hardship to the institution and the communities they serve?

Answer. Participating CDCI institutions have been able to accumulate additional capital since the program's inception, and all but two participating institutions are current on dividend payments. The duration of these investments as well as the interest and dividend deferral features were designed to promote stability. In addition, in order to protect the taxpayers' interest in the value of an investment and to promote the objectives of EESA, if an institution is financially distressed, Treasury can restructure that investment in a way that facilitates strategic capital actions by the institution.

Question. If you do not have a plan, will you commit to develop and implement one by the end of 2016?

Answer. Treasury is continuing to closely monitor the performance of the CDCI institutions and make decisions regarding the program's wind-down as appropriate.

QUESTIONS SUBMITTED TO HON. JOHN A. KOSKINEN

QUESTIONS SUBMITTED BY SENATOR JOHN BOOZMAN

PERFORMANCE AWARDS

Question. For the past few years the IRS provided approximately \$60 million in employee bonuses each year. TIGTA previously found that awards were given to employees with tax compliance problems and other misconduct issue. How much did you pay out in employee awards for fiscal year 2015? Please provide a breakdown for bargaining unit employees, non-bargaining unit employees, managers, and SES.

Answer. In order to protect the integrity of the IRS, screening for employee misconduct and discipline continues to occur prior to the payment of awards. Employees who have been determined to have violated Section 1203(b) provisions will not be eligible for performance awards, bilingual awards, Quality Step Increases, Performance Based Increases, or other monetary awards.

Please see the table below providing data on the awards for fiscal year 2015.

IRS Performance Awards

Fiscal Year/Average Population	Fiscal Year 2015
Bargaining Unit (BU)	\$36,243,384
# of awards	36,737
Average \$	\$987
Manager (IR)	\$8,042,219
# of awards	4,739

IRS Performance Awards—Continued

Fiscal Year/Average Population	Fiscal Year 2015
<i>Average \$</i>	\$1,697
Non-Bargaining (NBU)	\$8,506,514
<i># of awards</i>	5,262
<i>Average \$</i>	\$1,617
Senior Executive Service (SES)	\$1,540,868
<i># of awards</i>	122
<i>Average \$</i>	\$12,630
Total (BU, NBU, Manager, SES)	\$54,332,985.00
<i># of Awards (BU, NBU, Manager & SES)</i>	46,860
<i>Average \$ (BU, NBU, Manager & SES)</i>	\$1,159.47
Total (BU, NBU, Manager)	\$16,548,733
<i># of Awards (BU, NBU, Manager)</i>	46,738
<i>Average \$ (BU, NBU, Manager)</i>	\$1,163

Chief Counsel Performance Awards

Fiscal Year/Average Population	Fiscal Year 2015
Bargaining Unit (BU)	\$1,068,549
<i># of awards/average \$</i>	811/avg \$1,318
Manager (IR)	\$678,212
<i># of awards/average \$</i>	250/avg \$2,713
Non-Bargaining (NBU)	\$459,107
<i># of awards/average \$</i>	257/avg \$1,786
Senior Executive Service (SES)	\$376,940
<i># of awards/average \$</i>	35/avg \$10,770
Total	\$2,582,808.00

INFORMATION TECHNOLOGY & IDENTITY THEFT

Question. The identity theft problem continues to plague the IRS. You recently announced 390,000 additional taxpayers were affected by the Get Transcript breach, bringing the total number of affected taxpayers to 724,000, while 101,000 attempts were successful at gaining access to an E-file PIN during a bot attack. In addition, the IRS shut down the Identity Protection Personal Identification Number (IP PIN) page so that it could review this tool and further strengthen its security features.

TIGTA recommended IRS ensure the level of authentication on risk for all current and future IRS online applications accurately reflect the risk to the IRS and taxpayers and be in accordance with NIST standards.

GAO has found that IRS only asks authentication questions of a small number of taxpayers to confirm their identities. GAO stated IRS has options for improving its tools for authenticating taxpayers.

Why were these applications rolled out without proper risk assessments?

Answer. As a matter of practice, we conduct risk assessments on all taxpayer-facing systems before they are deployed. Both Get Transcript and IP PIN completed risk assessments prior to launch and the IRS assigned them what was considered to be the appropriate level of assurance at the time. We follow Office of Management & Budget (OMB) Memorandum M-04-04, which states that all Federal agencies must conduct an e-authentication risk assessment on those systems that remotely authenticate users over a network for purposes of e-government and commerce to determine the required level of authentication assurance for the information system. We also work closely with organizations such as the National Institute of Standards and Technology (NIST) to ensure best practices are followed and solutions meet the appropriate guidelines, e.g., NIST SP 800-63-2.

While compliance with NIST standards (e.g., NIST SP 800-63) is important, it is difficult for guidance to keep up with the latest cyber threats. In particular, the proliferation of easily accessible information about individuals in the past few years means that previously private, shared secrets are generally available for a price, legitimately or illegitimately.

As a result, in addition to our efforts in complying with the latest guidance, we now are taking a risk-based approach in decisionmaking related to safeguarding taxpayer information, incorporating the latest cyber threats and vulnerabilities. This approach, used for the re-launch of the IRS's Get Transcript online service and the IP PIN application, includes a more rigorous identity proofing and e-authentication process for taxpayers, enhanced monitoring technologies and other strategies that will significantly increase protection against identity thieves impersonating taxpayers to access tax return information. We expect this authentication procedure to be used for other self-help services in the future.

Question. Was the IP PIN page at risk of the same authentication concerns as Get Transcript? How many individuals attempted to retrieve their IP PINs through this site and subsequently found out they were victims of identity theft?

Answer. Although the IP PIN application employed the same authentication process as Get Transcript prior to its relaunch, the IP PIN application does not reveal any personal taxpayer identification information. Instead, the IP PIN application enables certain taxpayers to obtain an optional IP PIN and provides service to IP PIN holders who have lost or misplaced their IP PIN and need it to file.

Prior to the beginning of the 2016 filing season, we put procedures in place to mitigate the risk of potentially fraudulent use of the IP PIN application. Returns filed with an IP PIN obtained from the IP PIN application received extra scrutiny to verify that the return received was the true taxpayer's return. Although we implemented this additional layer of security and prevented fraudulent returns from posting to the true taxpayer's account, our ongoing monitoring processes quickly identified suspicious activity as it occurred. Thus, the IRS decided to discontinue offering services through the online IP PIN application until we could implement a strengthened authentication process.

We relaunched the IP PIN application on July 19, 2016 with Level 3 assurance after raising the risk assessment from moderate to high.

The number of distinct taxpayers who viewed their IP PIN online between January 20, 2016 and March 7, 2016, was roughly 138,000. The additional scrutiny of returns filed with IP PINs obtained from the IP PIN application identified roughly 17,000 potentially fraudulent returns filed out of the 138,000 for which no improper refunds were issued.

Question. What steps have you taken in response to TIGTA's & GAO's recommendation?

Answer. We have established the IRS Identity Assurance Office. We are also developing an enterprise-wide Identity Assurance Strategy and Roadmap to ensure Secure Access meets the needs of the IRS and can manage data to enable taxpayers to access services through a variety of channels (e.g., online, phone, in-person). The Identity Assurance Strategy includes updating e-Authentication capabilities consistent with OMB policy and NIST standards. The Get Transcript and IP PIN applications currently employ these updated e-Authentication capabilities. We plan to complete development of the Identity Assurance Strategy by the end of calendar year 2016, with full implementation of the associated roadmap occurring over a period of several years.

In support of our commitment to develop new strategies to protect taxpayer information, we have also worked closely with the Department of Homeland Security (DHS) and MITRE to perform extensive penetration testing to ensure integrity of our cybersecurity posture, including authentication. There is also a dedicated IRS team focusing exclusively on a cross-functional, enterprise-wide capability to provide secure account access to taxpayers. We plan to expand this new Secure Access capability to all applicable online applications applying the appropriate levels of assurance to each application as required by OMB policy and NIST guidelines. We are working with the US Digital Services (USDS) in building out this Secure Access capability, which we discuss in more detail below in our response to your question about the USDS's involvement in our Future State effort.

Question. What is IRS's process for assigning risk levels for its electronic applications?

Answer. We comply with both internal IRS policies and external Federal guidelines as a central tenet of our Identity Assurance Strategy. We follow OMB Memorandum M-04-04, which states that all Federal agencies must conduct an e-authentication risk assessment on those systems that remotely authenticate users over a network for purposes of e-government and commerce to determine the required level

of authentication assurance for the information system. We also work closely with NIST and other agencies to ensure best practices are followed and solutions meet the appropriate guidelines, e.g., NIST SP 800-63-2.

Question. Please provide a status update on the Get Transcript application.

Answer. On June 7, 2016, we relaunched our Get Transcript online service for taxpayers. The relaunched service has a more rigorous e-authentication framework that incorporates the latest security updates consistent with OMB policy and NIST standards and was developed as part of the Identity Assurance Strategy. This framework has significantly increased protections against identity thieves impersonating taxpayers to access tax return information through the IRS Get Transcript service. The new security features require a taxpayer to have a text-enabled mobile phone and ask the taxpayer specific financial account information, such as credit card number or certain loan account numbers. These features do require additional time and makes authentication more difficult for many users. As a result, many fewer taxpayers can successfully gain access to Get Transcript. We are working to increase the number of legitimate taxpayers who are able to use the automated service while ensuring that we provide adequate direction to taxpayers for the other ways in which they may obtain a transcript.

Under the OMB policy and NIST standards mentioned above, we have redesigned the authentication process to meet Level 3 assurance, which requires multi-factor remote authentication techniques and applies to Web applications requiring “high confidence in the asserted identity’s validity.” We also raised the risk assessment level of the Get Transcript Online application from moderate to high.

Question. To what extent does IRS plan to leverage the Digital Service Team assistance in its Future State vision?

Answer. We began working last year with top digital experts at U.S. Digital Service (USDS) to create a new e-authentication platform for Get Transcript and other IRS.gov tools. The recent successful relaunch of the Get Transcript online service with its stronger identity proofing with Secure Access e-Authentication is evidence of the effective partnership we have with USDS.

The Future State will focus on taxpayers and how to provide the services they need in the way that works for them. We plan to continue working with USDS to increase the number of taxpayers that can and do use IRS online services, develop additional security measures for our online services, and improve our public Web sites. For example, we will partner with USDS as we develop Online Accounts, to help meet security and performance guidelines as well as the needs of taxpayers.

Another important element of the Future State vision is IRS.gov, the portal used for all taxpayer access, whether they are browsing public content or accessing private information. USDS will help IRS improve reliability, style, architecture, and ease of use of our public facing Web sites.

CYBERSECURITY

Question. In your budget request you present a “focus area” of Strengthening Cybersecurity and Eliminating Stolen Identity Refund Fraud. What portion of the \$90,039 million to “Strengthen Cybersecurity & Eliminate Identity Theft” is for Cybersecurity?

Answer. As outlined in our fiscal year 2017 Congressional Justification, the total investment amount of \$90,039 million will help to prevent, detect, and combat stolen identity refund fraud, including detection and prevention, assistance to victims, and law enforcement. The funds will address the increased workload associated with Identity Theft, Refund Fraud, and Improper Payments. In addition, the Department of the Treasury proposed a new Department-wide Cybersecurity Enhancement Account that included all of the IRS’s new investments in cybersecurity. This account includes investments in Treasury-wide (\$48 million) and IRS-specific cybersecurity activities (\$62 million).

Question. What was the fiscal year 2016 enacted level on cyber spending?

Answer. The IRS’s fiscal year 2016 enacted level for cyber spending is \$269 million.

Question. How do the cyber activities and services funded under the Cybersecurity Enhancement Account compare to those funded under the fiscal year 2016 cyber base?

Answer. We have robust cybersecurity systems and processes in place, but more work must be done. The IRS plans to spend \$268.9 million on cyber security in 2016. In addition to maintaining the fiscal year 2016 cybersecurity initiatives with base funding, the President’s fiscal year 2017 budget includes \$62.084 million and 35 FTEs for the IRS as part of the request for \$109.827 million in the Department-wide Cybersecurity Enhancement Account. This request builds upon the

cybersecurity efforts already in place at the IRS and would fund \$54.732 million and 16 FTEs for cyber defense activities, including additional efforts to secure data, increased site reviews of non-IRS facilities such as lockbox banks to validate security controls are in place, improvements to our ability to monitor and respond to emerging cybersecurity threats in real-time or near real-time, and comprehensive incident response capabilities for planning, evaluating, testing and maintaining the cyber resilience of mission critical IRS operations and enabling technologies. It also requests \$7.352 million and 19 FTEs to continue developing e-Authentication capabilities and access controls required to expand the use of mobile devices, cloud computing, and collaborative technologies, which will improve fraud detection and prevention through the use of suppression of unauthorized or suspicious user activity.

Question. What is IRS's plan for working with Treasury on programmatic needs for Cyber Defense and e-Authentication?

Answer. We are working with Treasury to support the Cyber Defense and e-Authentication through a centralized managed Cybersecurity Enhancement Account. These initiatives are described in detail in the Congressional Justification for this account.

USER FEES

Question. IRS collects hundreds of millions in fees it charges for services provided to taxpayers. The fiscal year 2017 budget anticipates approximately \$400 million in user fees.

In fiscal year 2016, the IRS anticipates spending \$204 million out of \$396 million on ACA information technology needs. Why does the IRS spend more in user fees on ACA IT needs than you do to improve taxpayer levels of service?

Answer. Over the last several years, the IRS Operations Support account has faced significant cuts. Additionally, the IRS is legally required to implement and deliver on a number of legislative requirements, including the Foreign Account Tax Compliance Act (FATCA), Affordable Care Act (ACA), Health Coverage Tax Credit (HCTC), the Protecting Americans from Tax Hikes (PATH) Act, and the Achieving a Better Life Experience (ABLE) Act, which are either not funded or not fully funded. User fees have been key to reducing the impact of these requirements. Recent reductions to the Operations Support appropriation has caused a situation where the infrastructure necessary for maintaining the integrity of all IRS core operations, including filing season requirements and taxpayer services. Sufficient funding for Operations Support is critical to support taxpayer levels of service, because it pays for IT and telephone systems, and covers real-estate costs for the buildings where service representatives work. Funding must be allocated to the Operations Support appropriation for the new unfunded legislative mandates discussed above to avoid tax administration system failures and to ensure that the systems IRS employees use continue functioning.

RECENT SCAMS

Question. Taxpayers have been hit with an increasing number of scams this filing season. These scams include aggressive and threatening phone calls by criminals impersonating IRS agents and scammers attempting to verify tax return information over the phone. What steps has the IRS taken to communicate these dangerous scams to taxpayers particularly the elderly and individuals for whom English is not their first language?

Answer. Alerting taxpayers, especially those most vulnerable to scams, has been a priority for many years. In late 2013, we issued our first news release on telephone scams, <https://www.irs.gov/uac/newsroom/irs-warns-of-pervasive-telephone-scam>. Since then, we have issued a series of Tax Tips and additional news releases (examples linked below), as well as YouTube videos and podcasts (in English, Spanish and American Sign Language), to alert taxpayers to these on-going scams. We give prominent mention of tax scams on our main Web page, www.irs.gov and we have a special Web page, Tax Scams/Consumer Alerts, with information about this and similar scams. In recognition of the prevalence of this scam, we gave it high visibility on our list of the Dirty Dozen tax scams for the current filing season.

We have also halted most initial taxpayer contact by telephone. The vast majority of initial audit contacts are handled by sending a letter first. However, in some of our in-person field audits, a small percentage of our overall audits, we had sometimes contacted the taxpayer or their representative by phone to schedule an appointment to begin an audit or open an appeal. This phone contact was generally followed up with an appointment letter confirming the appointment. However, in an abundance of caution and in light of pervasive phone scams seeking to extort money from taxpayers, we changed this policy to ensure criminals claiming to represent the

IRS could not be mistaken for IRS personnel calling for appointments. We are implementing a new policy to now notify taxpayers first via mail, and then contact them to schedule an appointment. Further, we engaged our external partners in delivering warnings about tax scams by making drop-in articles available to them for use in their newsletters and on their Web pages. Our Outreach Corner has featured articles about scams that subscribers can use in their own publications that reach taxpayers—more than 50,000 organizations, including community-based, non-profit, and others, subscribe to these materials. Both traditional and social media have been very helpful in getting the word out on these scams.

TIGTA also now features a prominent scam alert on its Web page along with an expedited process for taxpayers to report such calls. <https://www.treasury.gov/tigta/> We are concerned about the innocent taxpayers who may be victimized by this scam; so, our messaging is designed to reassure taxpayers the real IRS will never:

- Call to demand immediate payment, nor will the agency call about taxes owed without first having mailed you a bill;
- Demand that you pay taxes without giving you the opportunity to question or appeal the amount IRS says you owe;
- Require you to use a specific payment method for your taxes, such as a prepaid debit card;
- Ask for credit or debit card numbers over the phone, or;
- Threaten to bring in local police or other law-enforcement groups to have you arrested for not paying.

Here are a few examples of the many ways we've alerted taxpayers about scams over the past few years:

2016:

- IR-2016-62*, IRS Warns of Continued Scams, Varied Tactics as the Tax Deadline Nears
- IR-2016-40*, Consumer Alert: Scammers Change Tactics, Once Again
- IR-2016-28*, Consumers Warned of New Surge in IRS E-mail Schemes during 2016 Tax Season; Tax Industry Also Targeted

2015:

- IR-2015-05*, Phone Scams Continue to be Serious Threat, Remain on IRS "Dirty Dozen" List of Tax Scams
- IR-2015-62*, Don't be Fooled, Phone Scams Continue to Be Serious Threat Nationwide
- Special Edition Tax Tip 2015-18*, IRS Urges Public to be Stay Alert for Scam Phone Calls
- Dirty Dozen 2015*, (Scams were listed as the top item)

2014:

- IR-2014-105*, Scam Phone Calls Continue; IRS Unveils New Video to Warn Taxpayers
- Special Edition Tax Tip 2014-18*, Five Easy Ways to Spot a Scam Phone Call
- IR-2014-84*, Scam Phone Calls Continue; IRS Identifies Five Easy Ways to Spot Suspicious Calls
- IR-2014-81*, IRS Repeats Warning about Phone Scams
- Special Edition Tax Tip 2014-17*, IRS Updates Phone Scams Warning
- IR-2014-53*, IRS Reiterates Warning of Pervasive Telephone Scam
- Special Edition Tax Tip 2014-10*, IRS Renews Phone Scam Warning

The protection of taxpayers and their rights remains a top priority for us. We are committed to working with our partners across government and the private sector to stop these scammers from preying on taxpayers.

ACA COSTS

Question. Your fiscal year 2017 budget request includes \$402 million for ACA, including \$41.4 million to handle the projected 6 million calls above normal telephone demand in fiscal year 2017 for Taxpayer Services. Specifically, 85 percent of the requested increase to improve taxpayer service is requested for ACA. Why is ACA implementation the IRS's highest priority? How does IRS estimate ACA call volume?

Answer. IRS must implement and enforce all the ACA's requirements by law. Accordingly, the ACA and other legislative requirements are among the IRS's priorities, in addition to performing our customary missions of providing taxpayer service, enforcing the tax code, and ensuring we are constantly adapting to our operating environment. The Service has had to fund implementation of legislative requirements from its core budget. The fiscal year 2017 budget seeks to obtain specific

funding for implementing additional ACA requirements and for addressing specific taxpayer questions about the law to ensure that taxpayers understand the requirements and can sufficiently comply with them.

We fund telephone level of service from the Taxpayer Services appropriation and supplemental funding from user fees receipts. Also, taxpayer services support costs, including IT infrastructure, facilities, and security services are funded from the Operations Support appropriation. ACA phone calls are treated with the same priority as other phone calls. IRS estimates of increased volume to meet taxpayer demand is what is driving our projected need for increased level of service funding.

Changes in the law tend to generate questions from taxpayers which lead to a higher call volume. We projected how much of the increased call volume for the coming filing season would come as a result of new ACA implementation. We estimated the ACA call volume by calculating the ratio of fiscal year 2016 ACA assistor call volume demand per ACA return and multiplying it by the projected number of ACA returns for fiscal year 2017. Level of Service for all taxpayers will go up or down according to the demand for service and the capacity of the IRS to answer calls, so more funding is needed to support level of service, regardless of which legislative change is generating additional phone calls.

BUDGET REQUEST

Question. In your budget request you are asking for almost \$12.3 billion for the IRS, which is a \$1 billion or 9.3 percent increase over fiscal year 2016 enacted. This amount includes an increase of \$530 million in direct, discretionary funding and \$515 million for a program integrity cap adjustment, which is clearly not allowed under the Budget Control Act. Unfortunately, less than 10 percent of the requested increases are for Taxpayer Services and the IRS continues to spend its funding on the Affordable Care Act. Why does this request fail to make customer service a priority?

Answer. We are committed to providing the highest level of customer service possible within available resources. Customer service remains one of our highest priorities and the Service allocated more than \$178 million (over 60 percent) of the available \$290 million from the Section 113 administrative provision to improve level of service this fiscal year. In the fiscal year 2017 Request, we requested \$41.4 million and 590 FTE and plan to allocate user fees to achieve a 70 percent level of service on our phone lines for the full year.

Question. IRS is seeking to build on the additional funds provided in fiscal year 2016 to implement a Future State Vision without fully determining whether it will provide sufficient support for taxpayers. Just recently you stated that taxpayers would prefer to not interact with you and instead transact their business online.

What data do you have to support this claim?

Answer. Our vision for the future is to provide taxpayers a broader choice of how they prefer to interact with the IRS. The intent is to ensure the availability of safe, secure, reliable online services for those taxpayers who would rather interact through those methods, which would in turn alleviate demand on the traditional methods allowing for more responsive customer service. We have no intention of discontinuing face-to-face or phone interactions.

Question. How are you ensuring taxpayers won't be exposed once again to identity theft or refund fraud?

Answer. While we cannot ensure taxpayers will never be exposed again, we are making significant investment in numerous processes and technologies to combat identify theft and refund fraud.

We have established the IRS Identity Assurance Office and are developing an enterprise-wide Identity Assurance Strategy and Roadmap across taxpayer contact channels to ensure Secure Access meets the needs of the IRS and manages data to enable taxpayers to access services through a variety of channels (e.g., online, phone, in-person). The Identity Assurance Strategy includes updating e-Authentication capabilities consistent with OMB policy and NIST standards, which is now available and in use in conjunction with the Get Transcript and IP PIN application. We plan to complete the development of the Identity Assurance Strategy across all other contact channels by the end of calendar year 2016, with full implementation of the associated roadmap occurring over a period of several years.

We comply with both internal policies and external Federal guidelines as a central tenet of its Identity Assurance Strategy. We follow OMB Memorandum M-04-04, which states that all Federal agencies must conduct an e-authentication risk assessment on those systems that remotely authenticate users over a network for purposes of e-government and commerce to determine the required level of authentication assurance for the information system. We also work closely with NIST to ensure best

practices are followed and solutions meet the appropriate guidelines, e.g., NIST SP 800-63-2.

Under this guidance, we have redesigned the authentication process to meet Level 3 assurance, which requires multi-factor remote authentication techniques and applies to Web applications requiring “high confidence in the asserted identity’s validity.” We also raised the risk assessment level of the Get Transcript application from moderate to high to more accurately reflect the risk demonstrated during the previous unauthorized accesses.

In support of its commitment to develop new strategies to protect taxpayer information, we also have worked closely with the Department of Homeland Security (DHS) and MITRE to perform extensive penetration testing to ensure the integrity of our cybersecurity posture, including authentication. We also have a dedicated team focusing exclusively on a cross-functional, enterprise-wide capability to provide secure account access to taxpayers. We plan to expand this new Secure Access capability to all applicable online applications applying the appropriate levels of assurance to each application as required by OMB policy and NIST guidelines. We are working with the U.S. Digital Services (USDS) in building out this Secure Access capability, which we discuss in greater detail above, in the answers under the heading “Information Technology & Identity Theft”.

Question. How are you accounting for taxpayers who have a real need for in-person services?

Answer. Our long-term goal is to provide all taxpayers with the most convenient and efficient way to obtain assistance. Face-to-face and telephone assistance will continue to be an integral part of the IRS Future State to serve taxpayers based on their needs and to facilitate customer access to other convenient and efficient channels.

Question. What is your plan for maintaining Taxpayer Assistance Centers?

Answer. Face-to-face service remains an integral part of the IRS Future State. We recently began offering scheduled appointments at our Taxpayer Assistance Centers (TACs) to decrease wait times. Since we started offering scheduled appointments, more than half of taxpayers calling for an appointment had their issues resolved over the phone, and determined that they did not need to come in person. The appointment service resulted in more convenient services for those taxpayers who were helped over the phone or online, substantially reduced or eliminating long lines at the TACs and reduced wait time for taxpayers who chose an appointment at a TAC. In addition, we are collaborating with existing partners to set up a limited number of virtual service delivery (VSD) workstations in some areas where there is no TAC. VSD involves taxpayers interacting with live assistants located in a different geographic location via an IRS computer and high-resolution video capabilities. The computer can be placed in IRS community partner locations or in other government offices. This capability was originally tested in 2011 providing assistance in smaller, understaffed offices through assistants in TAC locations with sufficient staffing. It was expanded in 2012 to include locating equipment at a Low Income Taxpayer Clinic and to provide appointments for taxpayers working with Appeals, Taxpayer Advocate Services and Compliance units. Future opportunities include expanding VSD through inter-agency agreements and through additional community partnerships.

Question. In your fiscal year 2016 Operating Plan you stated the possibility of transferring up to \$145 million from the Enforcement account to Operations Support for IT systems and only \$30 million to Taxpayer Services to meet level of service goals.

Why is the bulk of this transfer going to Operations Support? Do you plan to roll out additional electronic service options with these resources?

Answer. The bulk of the transfer is going to Operations Support to help us maintain the systems necessary to successfully execute filing season, maintain system availability to provide taxpayer support services, and implement numerous unfunded or not fully funded legislative requirements such as: the ACA; the Foreign Account Tax Compliance Act (FATCA); the Achieving a Better Life Experience (ABLE) Act; a new certification requirement for professional employer organizations; and reauthorization of the Health Coverage Tax Credit (HCTC). Additionally, Congress passed three new legislative requirements in December 2015: a private debt-collection program, Protecting Americans from Tax Hikes (PATH) Act and a registration requirement for newly created 501(c)(4) organizations. These programs all require technology investments to implement and to maintain.

Question. Why is Operations Support a priority over Taxpayer Services for this transfer?

Answer. The Operations Support appropriation provides information technology, telephones, real estate space, and other services used by every employee at the IRS.

When increases are made to Taxpayer Services or Enforcement, commensurate increases must be made to Operations Support so that new employees have space, tools, and common resources to complete their work. However, this has not happened. The Operations Support appropriation has been cut by more than 11 percent since fiscal year 2010, and has also needed to pay for IT implementations of various new unfunded legislative requirements while replacing overaged IT infrastructure (more than 60 percent of which is beyond lifecycle replacement standard age). The savings from staff attrition in the Enforcement account have been moved to Operations Support so that it can maintain services needed to support remaining Taxpayer Services- and Enforcement-funded activities.

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER A. COONS

SECURITY OF ONLINE APPLICATIONS AND PROTECTION OF SENSITIVE PERSONAL INFORMATION

Question. Safeguarding sensitive personal information and combatting data breaches is a daunting challenge for the IRS. What lessons have been learned from the “Get Transcript” hack?

Answer. When we identified the problem with Get Transcript in May 2015, we determined that unauthorized third parties with taxpayer-specific sensitive data from non-IRS sources had cleared the Get Transcript verification process. While we determined that many of the perpetrators had failed to pass the final verification step, there were those who had cleared the process and gained unauthorized access to taxpayer data. Lessons learned include the following:

- Criminals are becoming more and more sophisticated as each day passes. This fraudulent activity is their form of “business” and they invest in it similar to any other business in a competitive market. Previously, sensitive information such as shared secrets would have been acquired physically, through techniques such as “dumpster diving” or direct access to private records or documents. However, the proliferation of easily accessible information about individuals in the past few years through social media means that previously private, shared secrets are generally available for a price—legitimately or illegitimately; this undermines “knowledge-based authentication” techniques that were a long-standing, typical authentication technique.
- While compliance with NIST standards (e.g., NIST SP 800–63) is important, it is difficult for guidance to keep up with the latest cyber threats. In addition to our efforts in complying with the latest guidance, we also must take a risk-based approach for our decisionmaking related to safeguarding taxpayer information, incorporating the latest cyber threats and vulnerabilities. This approach includes a more rigorous e-authentication process that will significantly increase protection against identity thieves impersonating taxpayers to access tax return information through the IRS Get Transcript online service and other IRS self-help services into the future. With the assistance of top digital experts at U.S. Digital Service (USDS), we began working last year to create a new e-authentication platform for Get Transcript and other IRS.gov tools. We need to take a multi-pronged approach to protect taxpayer data:
- Strengthening our internal protocols, as evidenced by the recent relaunch of multi-factor authentication and stronger identity proofing with Secure Access e-Authentication in partnership with USDS. This process also includes more constant and aggressive approaches within the IRS to protect taxpayer data, such as restricting employee Internet access; encryption of taxpayer data for any transmission externally; content filtering and strict firewall policies, and network security monitoring.
- Partnering with industry through the Security Summit as we jointly implement the enhanced authentication data elements and the information sharing and assessment center.
- Continuing to engage the broader tax administration “ecosystem” as we track shifts in criminal behavior and emerging vulnerabilities.
- We cannot address this problem alone—we require support from individuals and companies, to protect the taxpayer information in their hands (before it becomes Federal Tax Information) through adequate identity proofing, authentication, and cybersecurity controls. We intend to continue our dialogue with NIST around standards that can help improve security.

Question. To what extent has this experience forced IRS officials to reassess how online applications are made available in a secure environment?

Answer. We have taken a more conservative approach with enhanced identity validation with the recent relaunch of the Get Transcript and IP PIN on-line applications.

To use these on-line services, taxpayers must now have an email address, a text-enabled mobile phone, and specific financial account information such as a credit-card number or certain loan numbers. Taxpayers who registered using the older process will need to re-register and strengthen their authentication in order to access the tools. As part of this new multi-factor process, we will send security codes via email and text. Unfortunately, these new security measures allow only a minority of taxpayers to successfully authenticate and access the system. We are working to broaden authentication in the future so that more taxpayers can use new online tools, without sacrificing security.

A new Secure Access process is not the only step we have taken. We have also been improving our systems architecture to enable enhanced online services. In order to launch high-profile online applications, we have improved our launch process by expanding testing and external validation activities (e.g., beta testing) to ensure organizational readiness and preparedness. This careful approach promotes confidence in moving forward with any online application launch.

We have developed a broader cybersecurity strategy that is focused on managing information security risk on a continuous basis; monitoring the security controls in our information systems and the environments in which those systems operate on an ongoing basis; and maintaining ongoing awareness of information security, vulnerabilities and threats to support organizational risk management decisions. We are also better prepared for incident management (that is, response, resolution and recovery) in the event of a security incident.

Question. What steps have been taken to address the concerns raised by TIGTA that the IRS lacks an agency-wide strategy and that the authentication methods fall short of the NIST standards?

Answer. We have established the IRS Identity Assurance Office and is developing an enterprise-wide Identity Assurance Strategy and Roadmap across taxpayer contact channels to ensure Secure Access meets the needs of the IRS and manages data to enable taxpayers to access services through a variety of channels (e.g., online, phone, in-person). The Identity Assurance Strategy includes updating e-Authentication capabilities consistent with OMB policy and NIST standards, which is now available and in use in conjunction with the Get Transcript and IP PIN applications. Assuming these efforts receive adequate funding, we plan to complete the Identity Assurance Strategy by the end of calendar year 2016, with full implementation of the associated roadmap occurring over a period of several years.

We comply with both internal policies and external Federal guidelines as a central tenet of its Identity Assurance Strategy. As a matter of practice, we conduct risk assessments on all taxpayer-facing systems before they are deployed. We follow OMB Memorandum M-04-04, which states that all Federal agencies must conduct an e-authentication risk assessment on those systems that remotely authenticate users over a network for purposes of e-government and commerce to determine the required level of authentication assurance for the information system. We also work closely with organizations such as NIST to ensure best practices are followed and solutions meet the appropriate guidelines, e.g., NIST SP 800-63-2.

Under this guidance, we have redesigned the authentication process to meet Level 3 assurance, which requires multi-factor remote authentication techniques and applies to Web applications requiring "high confidence in the asserted identity's validity." We also raised the risk assessment level of the Get Transcript application from moderate to high.

In support of its commitment to develop new strategies to protect taxpayer information, we have also worked closely with the Department of Homeland Security (DHS) and MITRE to perform extensive penetration testing to ensure integrity of our cybersecurity posture, including authentication. There is also a dedicated IRS team focusing exclusively on a cross-functional, enterprise-wide capability to provide secure account access to taxpayers. We plan to expand this new Secure Access capability to all applicable online applications applying the appropriate levels of assurance to each application as required by OMB policy and NIST guidelines. We are working with the US Digital Services (USDS) in building out this Secure Access capability. The USDS will also help us improve the general usability of our services, for example identifying where taxpayers get confused or frustrated enough to drop out of the process and modifying the user interface, to remove areas of confusion for taxpayers.

A key part of the IRS Future State is for taxpayers to have a more complete online experience for their IRS interactions. The partnership between the IRS and USDS in developing and expanding our Secure Access framework is the cornerstone

of all future IRS efforts to create more valuable features and services for taxpayers. It creates opportunities for taxpayers to have more convenient, efficient, and scalable alternatives to phone calls or in-person service. It paves the way for taxpayers to have an account at the IRS where they or those they authorize, can log-in securely, get the information about their account and interact with the IRS as needed. This approach also has a goal of freeing up our limited in-person resources—such as our phone lines—to better serve people and tax professionals who need in-person assistance. We will partner with USDS as we develop Online Accounts, to help meet security and performance guidelines as well as the needs of taxpayers.

Question. If these actions are a work-in-progress, when do you expect to complete work to correct these deficiencies?

Answer. See response to the previous question above.

Question. How has IRS's engagement with industry, tax practitioners, and state partners through the "Security Summit" you convened last June enhanced IRS's work? What's next on the horizon for the "Summit" activities?

Answer. Marking its first year, this ground-breaking partnership made great progress in 2016. As a result, we have implemented new safeguards leveraging cooperation with Summit partners, begun working with Summit partners to develop a framework for enhancing cybersecurity protections, and taken initial steps to develop an "early warning" system that will help industry, tax practitioner, and state partners quickly identify and share identity theft schemes.

Because of the Security Summit initiative and our cooperative efforts, we protected more taxpayers from tax-related identity theft, we stopped more suspicious tax returns, and we prevented more fraudulent refunds from getting into criminals' hands. Because of the safeguards enacted by this partnership, fewer people became victims of tax-related identity theft this year. See IRS news release IR-2016-94 for additional details: <https://www.irs.gov/uac/newsroom/security-summit-reviews-2016-accomplishments-announces-2017-initiatives>.

For 2017, the emphasis remains on authentication of legitimate tax filers, increased information sharing by partners, and cybersecurity. Most of these activities will be invisible to taxpayers, but will be extremely helpful to Summit partners in detecting and preventing identity theft returns and fraudulent refunds.

Additional details can be found at on our IRS.gov site at: <http://www.irs.gov/uac/security-summit-partners-update-identity-theft-initiatives-for-2017>.

QUESTION SUBMITTED BY SENATOR JERRY MORAN

Question. IRS officials have said to be weighing the idea of removing the Schedule B Donor Information Requirement, which asks for the names and addresses of an exempt organization's contributors and for certain information about contributions received. What is the status of considerations to eliminate Schedule B of the Form 990?

Answer. Since 2014, the IRS Priority Guidance Plan has contained an item on "Guidance under §6033 relating to the reporting of contributions." We continue to consider the relevant concerns of taxpayers and the IRS, while monitoring legislation that may affect the requirements.

SUBCOMMITTEE RECESS

Senator BOOZMAN. The hearing is adjourned.

[Whereupon, at 12:08 p.m., Tuesday, March 8, the subcommittee was recessed, to reconvene subject to the call of the Chair.]